FOREIGN AFFAIRS

JUN 1982

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McGeorge Bundy, George F. Kennan,
Robert S. McNamara and *Gerard Smith*

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EDITOR'S NOTE

Our lead article was conceived in the circumstances recited on its first page. We believe its proposal to be an important contribution to national as well as international discussion and to possible action on a literally vital issue. It should be of special interest to readers in Europe as well as in the United States and indeed elsewhere.

The three articles on the Middle East—by the Minister of State of Egypt, the Foreign Minister of Israel and the Crown Prince of Jordan—were prepared and submitted entirely independently of each other. We believe their simultaneous publication may sharpen our readers' understanding of the difficulties and differences that beset the pursuit of peace there in new circumstances.

Messrs. Chaikin and Reich likewise represent a fortuitous pairing of separate submissions. But again the two together serve to highlight crucial trends and problems that are both domestic and international.

Other articles speak for themselves, as usual, and we think the issue is one that will repay careful reading throughout. Its contents, and particularly the lead article, may generate a fair amount of business for our Comment and Correspondence section, and we are prepared to give special space to such comments or to related articles. As often in the past, we urge readers to seize pen or typewriter promptly, so that the section for our Summer issue can be assembled by May 15, with time for appropriate replies from our authors.

The articles in FOREIGN AFFAIRS *do not represent any consensus of beliefs. We do not expect that readers of the review will sympathize with all the sentiments they find there, for some of our writers will flatly disagree with others; but we hold that while keeping clear of mere vagaries* FOREIGN AFFAIRS *can do more to inform American public opinion by a broad hospitality to divergent ideas than it can by identifying itself with one school. It does not accept responsibility for the views expressed in any article, signed or unsigned, which appear in its pages. What it does accept is the responsibility for giving them a chance to appear there.* The Editors.

Foreign Affairs is published five times annually by the Council on Foreign Relations, Inc., Editorial Office, 58 East 68th Street, New York, N.Y. 10021. The Editors will consider manuscripts submitted, but assume no responsibility regarding them. Cable address Foraffairs, New York. Inquiries concerning subscriptions, permissions and reprints should be sent to *Foreign Affairs* Reader Services, 58 East 68th Street, New York, N.Y. 10021. For information concerning *Foreign Affairs* advertising, telephone (212) 734-0400. *Foreign Affairs* is a member of the Leadership Network advertising group. Telephone Robert F. Sennott, Jr., at (212) 682-4500. Subscription price U.S. $22.00—Foreign $28.00 per year. Subscription air mail rates are available upon request. Subscription inquiries: (800) 525-0527. *Foreign Affairs* is a member of the Audit Bureau of Circulations and the Magazine Publishers Association.

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McGeorge Bundy
George F. Kennan
Robert S. McNamara
Gerard Smith

NUCLEAR WEAPONS AND THE ATLANTIC ALLIANCE

We are four Americans who have been concerned over many years with the relation between nuclear weapons and the peace and freedom of the members of the Atlantic Alliance. Having learned that each of us separately has been coming to hold new views on this hard but vital question, we decided to see how far our thoughts, and the lessons of our varied experiences, could be put together; the essay that follows is the result. It argues that a new policy can bring great benefits, but it aims to start a discussion, not to end it.

For 33 years now, the Atlantic Alliance has relied on the asserted readiness of the United States to use nuclear weapons if necessary to repel aggression from the East. Initially, indeed, it was widely thought (notably by such great and different men as Winston Churchill and Niels Bohr) that the basic military balance in Europe was between American atomic bombs and the massive conventional forces of the Soviet Union. But the first Soviet explosion, in August 1949, ended the American monopoly only

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one month after the Senate approved the North Atlantic Treaty, and in 1950 communist aggression in Korea produced new Allied attention to the defense of Europe.

The "crude" atomic bombs of the 1940s have been followed in both countries by a fantastic proliferation of weapons and delivery systems, so that today the two parts of a still-divided Europe are targeted by many thousands of warheads both in the area and outside it. Within the Alliance, France and Britain have developed thermonuclear forces which are enormous compared to what the United States had at the beginning, although small by comparison with the present deployments of the superpowers. Doctrine has succeeded doctrine, from "balanced collective forces" to "massive retaliation" to "mutual assured destruction" to "flexible response" and the "seamless web." Throughout these transformations, most of them occasioned at least in part by changes in the Western view of Soviet capabilities, both deployments and doctrines have been intended to deter Soviet aggression and keep the peace by maintaining a credible connection between any large-scale assault, whether conventional or nuclear, and the engagement of the strategic nuclear forces of the United States.

A major element in every doctrine has been that the United States has asserted its willingness to be the first—has indeed made plans to be the first if necessary—to use nuclear weapons to defend against aggression in Europe. It is this element that needs re-examination now. Both its cost to the coherence of the Alliance and its threat to the safety of the world are rising while its deterrent credibility declines.

This policy was first established when the American nuclear advantage was overwhelming, but that advantage has long since gone and cannot be recaptured. As early as the 1950s it was recognized by both Prime Minister Churchill and President Eisenhower that the nuclear strength of both sides was becoming so great that a nuclear war would be a ghastly catastrophe for all concerned. The following decades have only confirmed and intensified that reality. The time has come for careful study of the ways and means of moving to a new Alliance policy and doctrine: that nuclear weapons will not be used unless an aggressor should use them first.

II

The disarray that currently besets the nuclear policy and practices of the Alliance is obvious. Governments and their representatives have maintained an appearance of unity as they persist in

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their support of the two-track decision of December 1979, under which 572 new American missiles of intermediate range are to be placed in Europe unless a satisfactory agreement on the limitation of such weapons can be reached in the negotiations between the United States and the Soviet Union that began last November. But behind this united front there are divisive debates, especially in countries where the new weapons are to be deployed.

The arguments put forward by advocates of these deployments contain troubling variations. The simplest and intuitively the most persuasive claim is that these new weapons are needed as a counter to the new Soviet SS-20 missiles; it may be a recognition of the surface attractiveness of this position that underlies President Reagan's striking—but probably not negotiable—proposal that if all the SS-20s are dismantled the planned deployments will be cancelled. Other officials have a quite different argument, that without new and survivable American weapons which can reach Russia from Western Europe there can be no confidence that the strategic forces of the United States will remain committed to the defense of Western Europe; on this argument the new missiles are needed to make it more likely that any war in Europe would bring nuclear warheads on the Soviet Union and thus deter the aggressor in the first place. This argument is logically distinct from any concern about the Soviet SS-20s, and it probably explains the ill-concealed hope of some planners that the Reagan proposal will be rejected. Such varied justifications cast considerable doubt on the real purpose of the proposed deployment.

An equally disturbing phenomenon is the gradual shift in the balance of argument that has occurred since the need to address the problem was first asserted in 1977. Then the expression of need was European, and in the first instance German; the emerging parity of long-range strategic systems was asserted to create a need for a balance at less than intercontinental levels. The American interest developed relatively slowly, but because these were to be American missiles, American planners took the lead as the proposal was worked out. It has also served Soviet purposes to concentrate on the American role. A similar focus has been chosen by many leaders of the new movement for nuclear disarmament in Europe. And now there are American voices, some in the executive branch, talking as if European acceptance of these new missiles were some sort of test of European loyalty to the Alliance. Meanwhile some of those in Europe who remain publicly committed to both tracks of the 1979 agreement are clearly hoping that the day of deployment will never arrive. When the very origins of a new proposal become the source of irritated argument

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among allies—"You started it!"—something is badly wrong in our common understanding.

A still more severe instance of disarray, one which has occurred under both President Carter and President Reagan, relates to the so-called neutron bomb, a weapon designed to meet the threat of Soviet tanks. American military planners, authorized by doctrine to think in terms of early battlefield use of nuclear weapons, naturally want more "up-to-date" weapons than those they have now; it is known that thousands of the aging short-range nuclear weapons now in Europe are hard to use effectively. Yet to a great many Europeans the neutron bomb suggests, however unfairly, that the Americans are preparing to fight a "limited" nuclear war on their soil. Moreover neither weapons designers nor the Pentagon officials they have persuaded seem to have understood the intense and special revulsion that is associated with killing by "enhanced radiation."

All these recent distempers have a deeper cause. They are rooted in the fact that the evolution of essentially equivalent and enormously excessive nuclear weapons systems both in the Soviet Union and in the Atlantic Alliance has aroused new concern about the dangers of all forms of nuclear war. The profusion of these systems, on both sides, has made it more difficult than ever to construct rational plans for any first use of these weapons by anyone.

This problem is more acute than before, but it is not new. Even in the 1950s, a time that is often mistakenly perceived as one of effortless American superiority, the prospect of any actual use of tactical weapons was properly terrifying to Europeans and to more than a few Americans. Military plans for such use remained both deeply secret and highly hypothetical; the coherence of the Alliance was maintained by general neglect of such scenarios, not by sedulous public discussion. In the 1960s there was a prolonged and stressful effort to address the problem of theater-range weapons, but agreement on new forces and plans for their use proved elusive. Eventually the proposal for a multilateral force (MLF) was replaced by the assignment of American Polaris submarines to NATO, and by the creation in Brussels of an inter-allied Nuclear Planning Group. Little else was accomplished. In both decades the Alliance kept itself together more by mutual political confidence than by plausible nuclear war-fighting plans.

Although the first years of the 1970s produced a welcome if oversold détente, complacency soon began to fade. The Nixon Administration, rather quietly, raised the question about the long-run credibility of the American nuclear deterrent that was to be

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elaborated by Henry Kissinger in 1979 at a meeting in Brussels. Further impetus to both new doctrine and new deployments came during the Ford and Carter Administrations, but each public statement, however careful and qualified, only increased European apprehensions. The purpose of both Administrations was to reinforce deterrence, but the result has been to increase fear of nuclear war, and even of Americans as its possible initiators. Intended as contributions to both rationality and credibility, these excursions into the theory of limited nuclear war have been counterproductive in Europe.

Yet it was not wrong to raise these matters. Questions that were answered largely by silence in the 1950s and 1960s cannot be so handled in the 1980s. The problem was not in the fact that the questions were raised, but in the way they seemed to be answered.

It is time to recognize that no one has ever succeeded in advancing any persuasive reason to believe that any use of nuclear weapons, even on the smallest scale, could reliably be expected to remain limited. Every serious analysis and every military exercise, for over 25 years, has demonstrated that even the most restrained battlefield use would be enormously destructive to civilian life and property. There is no way for anyone to have any confidence that such a nuclear action will not lead to further and more devastating exchanges. Any use of nuclear weapons in Europe, by the Alliance or against it, carries with it a high and inescapable risk of escalation into the general nuclear war which would bring ruin to all and victory to none.

The one clearly definable firebreak against the worldwide disaster of general nuclear war is the one that stands between all other kinds of conflict and any use whatsoever of nuclear weapons. To keep that firebreak wide and strong is in the deepest interest of all mankind. In retrospect, indeed, it is remarkable that this country has not responded to this reality more quickly. Given the appalling consequences of even the most limited use of nuclear weapons and the total impossibility for both sides of any guarantee against unlimited escalation, there must be the gravest doubt about the wisdom of a policy which asserts the effectiveness of any first use of nuclear weapons by either side. So it seems timely to consider the possibilities, the requirements, the difficulties, and the advantages of a policy of no-first-use.

III

The largest question presented by any proposal for an Allied policy of no-first-use is that of its impact on the effectiveness of NATO's deterrent posture on the central front. In spite of the doubts

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that are created by any honest look at the probable consequences of resort to a first nuclear strike of any kind, it should be remembered that there were strong reasons for the creation of the American nuclear umbrella over NATO. The original American pledge, expressed in Article 5 of the Treaty, was understood to be a nuclear guarantee. It was extended at a time when only a conventional Soviet threat existed, so a readiness for first use was plainly implied from the beginning. To modify that guarantee now, even in the light of all that has happened since, would be a major change in the assumptions of the Alliance, and no such change should be made without the most careful exploration of its implications.

In such an exploration the role of the Federal Republic of Germany must be central. Americans too easily forget what the people of the Federal Republic never can: that their position is triply exposed in a fashion unique among the large industrial democracies. They do not have nuclear weapons; they share a long common boundary with the Soviet empire; in any conflict on the central front their land would be the first battleground. None of these conditions can be changed, and together they present a formidable challenge.

Having decisively rejected a policy of neutrality, the Federal Republic has necessarily relied on the nuclear protection of the United States, and we Americans should recognize that this relationship is not a favor we are doing our German friends, but the best available solution of a common problem. Both nations believe that the Federal Republic must be defended; both believe that the Federal Republic must not have nuclear weapons of its own; both believe that nuclear guarantees *of some sort* are essential; and both believe that only the United States can provide those guarantees in persuasively deterrent peacekeeping form.

The uniqueness of the West German position can be readily demonstrated by comparing it with those of France and the United Kingdom. These two nations have distance, and in one case water, between them and the armies of the Soviet Union; they also have nuclear weapons. While those weapons may contribute something to the common strength of the Alliance, their main role is to underpin a residual national self-reliance, expressed in different ways at different times by different governments, which sets both Britain and France apart from the Federal Republic. They are set apart from the United States too, in that no other nation depends on them to use their nuclear weapons otherwise than in their own ultimate self-defense.

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The quite special character of the nuclear relationship between the Federal Republic and the United States is a most powerful reason for defining that relationship with great care. It is rare for one major nation to depend entirely on another for a form of strength that is vital to its survival. It is unprecedented for any nation, however powerful, to pledge itself to a course of action, in defense of another, that might entail its own nuclear devastation. A policy of no-first-use would not and should not imply an abandonment of this extraordinary guarantee—only its redefinition. It would still be necessary to be ready to reply with American nuclear weapons to any nuclear attack on the Federal Republic, and this commitment would in itself be sufficiently demanding to constitute a powerful demonstration that a policy of no-first-use would represent no abandonment of our German ally.

The German right to a voice in this question is not merely a matter of location, or even of dependence on an American nuclear guarantee. The people of the Federal Republic have demonstrated a steadfast dedication to peace, to collective defense, and to domestic political decency. The study here proposed should be responsive to their basic desires. It seems probable that they are like the rest of us in wishing most of all to have no war of any kind, but also to be able to defend the peace by forces that do not require the dreadful choice of nuclear escalation.

IV

While we believe that careful study will lead to a firm conclusion that it is time to move decisively toward a policy of no-first-use, it is obvious that any such policy would require a strengthened confidence in the adequacy of the conventional forces of the Alliance, above all the forces in place on the central front and those available for prompt reinforcement. It seems clear that the nations of the Alliance together can provide whatever forces are needed, and within realistic budgetary constraints, but it is a quite different question whether they can summon the necessary political will. Evidence from the history of the Alliance is mixed. There has been great progress in the conventional defenses of NATO in the 30 years since the 1952 Lisbon communiqué, but there have also been failures to meet force goals all along the way.

In each of the four nations which account for more than 90 percent of NATO's collective defense and a still higher proportion of its strength on the central front, there remain major unresolved political issues that critically affect contributions to conventional deterrence: for example, it can be asked what priority the United

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Kingdom gives to the British Army of the Rhine, what level of NATO-connected deployment can be accepted by France, what degree of German relative strength is acceptable to the Allies and fair to the Federal Republic itself, and whether we Americans have a durable and effective answer to our military manpower needs in the present all-volunteer active and reserve forces. These are the kinds of questions—and there are many more—that would require review and resolution in the course of reaching any final decision to move to a responsible policy of no-first-use.

There should also be an examination of the ways in which the concept of early use of nuclear weapons may have been built into existing forces, tactics, and general military expectations. To the degree that this has happened, there could be a dangerous gap right now between real capabilities and those which political leaders might wish to have in a time of crisis. Conversely there should be careful study of what a policy of no-first-use would require in those same terms. It seems more than likely that once the military leaders of the Alliance have learned to think and act steadily on this "conventional" assumption, their forces will be better instruments for stability in crises and for general deterrence, as well as for the maintenance of the nuclear firebreak so vital to us all.

No one should underestimate either the difficulty or the importance of the shift in military attitudes implied by a no-first-use policy. Although military commanders are well aware of the terrible dangers in any exchange of nuclear weapons, it is a strong military tradition to maintain that aggressive war, not the use of any one weapon, is the central evil. Many officers will be initially unenthusiastic about any formal policy that puts limits on their recourse to a weapon of apparently decisive power. Yet the basic argument for a no-first-use policy can be stated in strictly military terms: that any other course involves unacceptable risks to the national life that military forces exist to defend. The military officers of the Alliance can be expected to understand the force of this proposition, even if many of them do not initially agree with it. Moreover, there is every reason for confidence that they will loyally accept any policy that has the support of their governments and the peoples behind them, just as they have fully accepted the present arrangements under which the use of nuclear weapons, even in retaliation for a nuclear attack, requires advance and specific approval by the head of government.

An Allied posture of no-first-use would have one special effect that can be set forth in advance: it would draw new attention to

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the importance of maintaining and improving the specifically American conventional forces in Europe. The principal political difficulty in a policy of no-first-use is that it may be taken in Europe, and especially in the Federal Republic, as evidence of a reduced American interest in the Alliance and in effective overall deterrence. The argument here is exactly the opposite: that such a policy is the best one available for keeping the Alliance united and effective. Nonetheless the psychological realities of the relation between the Federal Republic and the United States are such that the only way to prevent corrosive German suspicion of American intentions, under a no-first-use regime, will be for Americans to accept for themselves an appropriate share in any new level of conventional effort that the policy may require.

Yet it would be wrong to make any hasty judgment that those new levels of effort must be excessively high. The subject is complex, and the more so because both technology and politics are changing. Precision-guided munitions, in technology, and the visible weakening of the military solidity of the Warsaw Pact, in politics, are only two examples of changes working to the advantage of the Alliance. Moreover there has been some tendency, over many years, to exaggerate the relative conventional strength of the U.S.S.R. and to underestimate Soviet awareness of the enormous costs and risks of any form of aggression against NATO.

Today there is literally no one who really knows what would be needed. Most of the measures routinely used in both official and private analyses are static and fragmentary. An especially arbitrary, if obviously convenient, measure of progress is that of spending levels. But it is political will, not budgetary pressure, that will be decisive. The value of greater safety from both nuclear and conventional danger is so great that even if careful analysis showed that the necessary conventional posture would require funding larger than the three-percent real increase that has been the common target of recent years, it would be the best bargain ever offered to the members of the Alliance.

Yet there is no need for crash programs, which always bring extra costs. The direction of the Allied effort will be more important than its velocity. The final establishment of a firm policy of no-first-use, in any case, will obviously require time. What is important today is to begin to move in this direction.

V

The concept of renouncing any first use of nuclear weapons should also be tested by careful review of the value of existing

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NATO plans for selective and limited use of nuclear weapons. While many scenarios for nuclear war-fighting are nonsensical, it must be recognized that cautious and sober senior officers have found it prudent to ask themselves what alternatives to defeat they could propose to their civilian superiors if a massive conventional Soviet attack seemed about to make a decisive breakthrough. This question has generated contingency plans for battlefield uses of small numbers of nuclear weapons which might prevent that particular disaster. It is hard to see how any such action could be taken without the most enormous risk of rapid and catastrophic escalation, but it is a fair challenge to a policy of no-first-use that it should be accompanied by a level of conventional strength that would make such plans unnecessary.

In the light of this difficulty it would be prudent to consider whether there is any acceptable policy short of no-first-use. One possible example is what might be called "no-*early*-first-use;" such a policy might leave open the option of some limited nuclear action to fend off a final large-scale conventional defeat, and by renunciation of any immediate first use and increased emphasis on conventional capabilities it might be thought to help somewhat in reducing current fears.

But the value of a clear and simple position would be great, especially in its effect on ourselves and our Allies. One trouble with exceptions is that they easily become rules. It seems much better that even the most responsible choice of even the most limited nuclear actions to prevent even the most imminent conventional disaster should be left out of authorized policy. What the Alliance needs most today is not the refinement of its nuclear options, but a clear-cut decision to avoid them as long as others do.

VI

Who should make the examination here proposed? The present American Administration has so far shown little interest in questions of this sort, and indeed a seeming callousness in some quarters in Washington toward nuclear dangers may be partly responsible for some of the recent unrest in Europe. But each of the four of us has served in Administrations which revised their early thoughts on nuclear weapons policy. James Byrnes learned the need to seek international control; John Foster Dulles stepped back somewhat from his early belief in massive retaliation; Dwight Eisenhower came to believe in the effort to ban nuclear tests which he at first thought dangerous; the Administration of John

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F. Kennedy (in which we all served) modified its early views on targeting doctrine; Lyndon Johnson shelved the proposed MLF when he decided it was causing more trouble than it was worth; and Richard Nixon agreed to narrow limits on anti-ballistic missiles whose large-scale deployment he had once thought indispensable. There were changes also in the Ford and Carter Administrations, and President Reagan has already adjusted his views on the usefulness of early arms control negotiations, even though we remain in a time of general stress between Washington and Moscow. No Administration should be held, and none should hold itself, to inflexible first positions on these extraordinarily difficult matters.

Nor does this question need to wait upon governments for study. The day is long past when public awe and governmental secrecy made nuclear policy a matter for only the most private executive determination. The questions presented by a policy of no-first-use must indeed be decided by governments, but they can and should be considered by citizens. In recent months strong private voices have been raised on both sides of the Atlantic on behalf of strengthened conventional forces. When this cause is argued by such men as Christoph Bertram, Field Marshal Lord Carver, Admiral Noel Gayler, Professor Michael Howard, Henry Kissinger, François de Rose, Theo Sommer, and General Maxwell Taylor, to name only a few, it is fair to conclude that at least in its general direction the present argument is not outside the mainstream of thinking within the Alliance. Indeed there is evidence of renewed concern for conventional forces in governments too.

What should be added, in both public and private sectors, is a fresh, sustained, and careful consideration of the requirements and the benefits of deciding that the policy of the Atlantic Alliance should be to keep its nuclear weapons unused as long as others do the same. Our own belief, though we do not here assert it as proven, is that when this possibility is fully explored it will be evident that the advantages of the policy far outweigh its costs, and that this demonstration will help the peoples and governments of the Alliance to find the political will to move in this direction. In this spirit we go on to sketch the benefits that could come from such a change.

VII

The first possible advantage of a policy of no-first-use is in the management of the nuclear deterrent forces that would still be

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necessary. Once we escape from the need to plan for a first use that is credible, we can escape also from many of the complex arguments that have led to assertions that all sorts of new nuclear capabilities are necessary to create or restore a capability for something called "escalation dominance"—a capability to fight and "win" a nuclear war at any level. What would be needed, under no-first-use, is a set of capabilities we already have in overflowing measure—capabilities for appropriate retaliation to any kind of Soviet nuclear attack which would leave the Soviet Union in no doubt that it too should adhere to a policy of no-first-use. The Soviet government is already aware of the awful risk inherent in any use of these weapons, and there is no current or prospective Soviet "superiority" that would tempt anyone in Moscow toward nuclear adventurism. (All four of us are wholly unpersuaded by the argument advanced in recent years that the Soviet Union could ever rationally expect to gain from such a wild effort as a massive first strike on land-based American strategic missiles.)

Once it is clear that the only nuclear need of the Alliance is for adequately survivable and varied *second strike* forces, requirements for the modernization of major nuclear systems will become more modest than has been assumed. In particular we can escape from the notion that we must somehow match everything the rocket commanders in the Soviet Union extract from their government. It seems doubtful, also, that under such a policy it would be necessary or desirable to deploy neutron bombs. The savings permitted by more modest programs could go toward meeting the financial costs of our contribution to conventional forces.

It is important to avoid misunderstanding here. In the conditions of the 1980s, and in the absence of agreement on both sides to proceed to very large-scale reductions in nuclear forces, it is clear that large, varied, and survivable nuclear forces will still be necessary for nuclear deterrence. The point is not that we Americans should move unilaterally to some "minimum" force of a few tens or even hundreds of missiles, but rather that once we escape from the pressure to seem willing and able to use these weapons first, we shall find that our requirements are much less massive than is now widely supposed.

A posture of no-first-use should also go far to meet the understandable anxieties that underlie much of the new interest in nuclear disarmament, both in Europe and in our own country. Some of the proposals generated by this new interest may lack practicability for the present. For example, proposals to make

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"all" of Europe—from Portugal to Poland—a nuclear-free zone do not seem to take full account of the reality that thousands of long-range weapons deep in the Soviet Union will still be able to target Western Europe. But a policy of no-first-use, with its accompaniment of a reduced requirement for new Allied nuclear systems, should allow a considerable reduction in fears of all sorts. Certainly such a new policy would neutralize the highly disruptive argument currently put about in Europe: that plans for theater nuclear modernization reflect an American hope to fight a nuclear war limited to Europe. Such modernization might or might not be needed under a policy of no-first-use; that question, given the size and versatility of other existing and prospective American forces, would be a matter primarily for European decision (as it is today).

An effective policy of no-first-use will also reduce the risk of conventional aggression in Europe. That risk has never been as great as prophets of doom have claimed and has always lain primarily in the possibility that Soviet leaders might think they could achieve some quick and limited gain that would be accepted because no defense or reply could be concerted. That temptation has been much reduced by the Allied conventional deployments achieved in the last 20 years, and it would be reduced still further by the additional shift in the balance of Allied effort that a no-first-use policy would both permit and require. The risk that an adventurist Soviet leader might take the terrible gamble of conventional aggression was greater in the past than it is today, and is greater today than it would be under no-first-use, backed up by an effective conventional defense.

VIII

We have been discussing a problem of military policy, but our interest is also political. The principal immediate danger in the current military posture of the Alliance is not that it will lead to large-scale war, conventional or nuclear. The balance of terror, and the caution of both sides, appear strong enough today to prevent such a catastrophe, at least in the absence of some deeply destabilizing political change which might lead to panic or adventurism on either side. But the present unbalanced reliance on nuclear weapons, if long continued, might produce exactly such political change. The events of the last year have shown that differing perceptions of the role of nuclear weapons can lead to destructive recriminations, and when these differences are compounded by understandable disagreements on other matters such

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as Poland and the Middle East, the possibilities for trouble among Allies are evident.

The political coherence of the Alliance, especially in times of stress, is at least as important as the military strength required to maintain credible deterrence. Indeed the political requirement has, if anything, an even higher priority. Soviet leaders would be most pleased to help the Alliance fall into total disarray, and would much prefer such a development to the inescapable uncertainties of open conflict. Conversely, if consensus is re-established on a military policy that the peoples and governments of the Alliance can believe in, both political will and deterrent credibility will be reinforced. Plenty of hard questions will remain, but both fear and mistrust will be reduced, and they are the most immediate enemies.

There remains one underlying reality which could not be removed by even the most explicit declaratory policy of no-first-use. Even if the nuclear powers of the Alliance should join, with the support of other Allies, in a policy of no-first-use, and even if that decision should lead to a common declaration of such policy by these powers and the Soviet Union, no one on either side could guarantee beyond all possible doubt that if conventional warfare broke out on a large scale there would in fact be no use of nuclear weapons. We could not make that assumption about the Soviet Union, and we must recognize that Soviet leaders could not make it about us. As long as the weapons themselves exist, the possibility of their use will remain.

But this inescapable reality does not undercut the value of a no-first-use policy. That value is first of all for the internal health of the Western Alliance itself. A posture of effective conventional balance and survivable second-strike nuclear strength is vastly better for our own peoples and governments, in a deep sense more civilized, than one that forces the serious contemplation of "limited" nuclear scenarios that are at once terrifying and implausible.

There is strong reason to believe that no-first-use can also help in our relations with the Soviet Union. The Soviet government has repeatedly offered to join the West in declaring such a policy, and while such declarations may have only limited reliability, it would be wrong to disregard the real value to both sides of a jointly declared adherence to this policy. To renounce the first use of nuclear weapons is to accept an enormous burden of responsibility for any later violation. The existence of such a clearly declared common pledge would increase the cost and risk of any

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sudden use of nuclear weapons by either side and correspondingly reduce the political force of spoken or unspoken threats of such use.

A posture and policy of no-first-use also could help to open the path toward serious reduction of nuclear armaments on both sides. The nuclear decades have shown how hard it is to get agreements that really do constrain these weapons, and no one can say with assurance that any one step can make a decisive difference. But just as a policy of no-first-use should reduce the pressures on our side for massive new nuclear forces, it should help to increase the international incentives for the Soviet Union to show some restraint of its own. It is important not to exaggerate here, and certainly Soviet policies on procurement are not merely delayed mirror-images of ours. Nonetheless there are connections between what is said and what is done even in the Soviet Union, and there are incentives for moderation, even there, that could be strengthened by a jointly declared policy of renouncing first use. At a minimum such a declaration would give both sides additional reason to seek for agreements that would prevent a vastly expensive and potentially destabilizing contest for some kind of strategic advantage in outer space.

Finally, and in sum, we think a policy of no-first-use, especially if shared with the Soviet Union, would bring new hope to everyone in every country whose life is shadowed by the hideous possibility of a third great twentieth-century conflict in Europe—conventional or nuclear. It seems timely and even urgent to begin the careful study of a policy that could help to sweep this threat clean off the board of international affairs.

IX

We recognize that we have only opened this large question, that we have exhausted no aspect of it, and that we may have omitted important elements. We know that NATO is much more than its four strongest military members; we know that a policy of no-first-use in the Alliance would at once raise questions about America's stance in Korea and indeed other parts of Asia. We have chosen deliberately to focus on the central front of our central alliance, believing that a right choice there can only help toward right choices elsewhere.

What we dare to hope for is the kind of new and widespread consideration of the policy we have outlined that helped us 15 years ago toward SALT I, 25 years ago toward the Limited Test Ban, and 35 years ago toward the Alliance itself. Such consider-

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ation can be made all the more earnest and hopeful by keeping in mind one simple and frequently neglected reality: there has been no first use of nuclear weapons since 1945, and no one in any country regrets that fact. The right way to maintain this record is to recognize that in the age of massive thermonuclear overkill it no longer makes sense—if it ever did—to hold these weapons for any other purpose than the prevention of their use.

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Boutros Boutros-Ghali

THE FOREIGN POLICY OF EGYPT IN THE POST-SADAT ERA

Egypt, for several centuries, has been performing an important function of cultural and political synthesis between Islam and Christianity, the Arab world and Europe, Africa and Asia, and the civilization of the desert and that of the Mediterranean. This reality, together with the perennial character of the citizens of the oldest state in the area, acquired through the ages, constitutes an important factor that conditions the attitudes and behavior of Egypt toward the rest of the world.

However, the foreign policy of a country is the sum of various geopolitical, historical and economic components. From Gamal Abdel Nasser to Anwar el-Sadat, from Anwar el-Sadat to Hosni Mubarak, these same components have influenced and shaped the foreign policy of Egypt. Therefore, it is in the nature of things that this policy should have a character of continuity through the various periods, and, consequently, after the tragic death of President Sadat, that this continuity should prevail.

Broadly speaking, Egyptian foreign policy in the last three decades has been directed toward two main challenges: how to contain Israeli ambitions and how to solve the Palestinian problem, the core of the Middle East crisis. This task, difficult in itself and rendered more complex by virtue of the multifaceted nature of the conflict, has been further complicated by the differences among Arabs, and the inability of some to adopt a rational attitude or to discard shortsighted policies toward the problem.

Thus, Egypt's efforts to resolve the contradictions between Palestinian national rights and Israeli national aims had to take place in the framework of an equation that would strike a balance between Egypt's conviction that Arab initiative is an important factor in any peace process and the necessity for her to exercise her traditional leadership in order to break the deadlock that has existed for well over 30 years, a deadlock that was undoubtedly

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detrimental to the interests of Egypt and all the other Arab states as well as to those of the Palestinian people.

In an interdependent world such as ours, Egypt's initiation of the peace process would no doubt have worldwide implications, particularly concerning her relations with the Arab countries, Africa and the nonaligned countries in general. This essay is an attempt to analyze Egypt's response to that challenge and the impact of that response on her relations with the Arab world, Africa and the Third World at large, in the post-Sadat era.

II

A review of the history of the region demonstrates that Egypt is the central power in the Middle East. Major developments and events in the area during the nineteenth and twentieth centuries have been, to a great extent, shaped by the role played by Egypt, and major events have never left Egypt indifferent. Ever since the partition of Palestine and the establishment of the state of Israel in 1948, Egypt has been at the forefront of the opposition to the creation of a Jewish state at the expense of the Palestinian people. The Egyptian people were deeply affected by the injustice done to the Palestinian people and the usurpation of their rights. This Egyptian opposition did not in any way stem from any anti-Jewish sentiment, but it was rather based on the dismissal of the violation of the Palestinians' rights to sovereignty and independence, those rights guaranteed by the U.N. Charter and recognized with regard to all other peoples.

From this standpoint, Egypt also objected to Jordanian schemes to extend sovereignty over the West Bank. A violent controversy erupted at that time between the Arab states on the future of the West Bank. Jordan, supported by Iraq, favored the annexation of these Palestinian territories, while Egypt, supported by Saudi Arabia, rejected the Hashemite plan and did not recognize Jordan's domination of the West Bank. In 1950 Egypt demanded the expulsion of Jordan from the Arab League because of its measures to annex the West Bank and its disregard of the rights of the Palestinian people to determine their own future on their own territory.

The Council of the Arab League adopted a resolution warning Jordan against the consequences of such action and reiterating a common Arab attitude. The resolution laid down that the Council:

reaffirms the unanimous resolution of April 12, 1948, that the entry into

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Palestine of the Arab Armies was to save it from the conspiracies and atrocities it was subjected to and that it should be considered as a provisional measure void of any intention or power to bring about the occupation or partition of Palestine; and that the Palestinian territories should be restored to their rightful owners. In case of violation of this Resolution by any Arab State, that State should be considered as having violated the pact of the Arab League and will be dealt with accordingly.

On the other hand, Egypt preserved the Palestinian identity and character of the Gaza Strip. Egypt refused to annex it and never claimed sovereignty over it. Egypt considered the Gaza Strip, placed under her administration after the armistice agreement, as a Palestinian territory entrusted to Egypt provisionally, to be ultimately restored to the Palestinian people.

Not only did Egypt defend Palestinian rights, and oppose and resist the annexation of Palestinian territories by any power, Arab and non-Arab alike, but she also insisted that Palestine should be represented in the Arab League as well as in other international forums. Thus Egypt's struggle in favor of Palestinian rights led—from the beginning—to several inter-Arab disputes in addition to the Arab-Israeli confrontation. Egypt strongly believed that the Palestinians were entitled to freedom, self-determination and their own state if they so chose.

After four wars and 34 years of bloodshed and untold suffering, the unprecedented and courageous visit of President Sadat to Israel in November 1977, and the conclusion of the peace treaty with Israel and the exchange of diplomatic relations with the Jewish state, Egypt in 1982 remains as solid in her commitment to the realization of the rights of the Palestinian people as she was in 1948.

There is continuity and consistency in that position which can be explained by the fact that the goal to be achieved supersedes the ways and means to reach it. Egypt did not at any stage deviate from the goal of restoring Palestinian rights. The Egyptian peace initiative of November 1977 was in its essence a new approach, a new methodology to attain peacefully a solution to the conflict that would be based on these rights as recognized by the Charter and resolutions of the United Nations.

The October War of 1973 ushered in a new era in the Middle East and opened the door for the first time to the possibility of reconciliation between Arabs and Israelis. It constituted a turning point on the whole geopolitical map of the Middle East conflict, thus paving the way for President Sadat's peace policy. After attempting to obtain recognition of Palestinian rights through

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military confrontation, Egypt is now trying to achieve the same aim through diplomatic efforts. Egypt is now trying to demonstrate that this can be done through peaceful means, through negotiation and a continuous dialogue.

This shift in the means, but not in the objective, was based on a rational analysis of regional power relations as well as on that of the attitudes of the two superpowers. The interests of the peoples of the area, without exception, and in fact the interests of world peace and stability, required that all responsible and lucid policymakers should eschew irrational reactions and misconceptions and reject from their thinking the possibility of war as an alternative.

On November 20, 1977, President Sadat pressed on the Israelis, in his address to the Knesset, the hard facts about the Palestinian cause and the right of the Palestinian people to their own state. He said:

> The problem is not that of Egypt and Israel. . . . Any separate peace between Egypt and Israel will not bring permanent peace. Rather, even if peace between all the confrontation States and Israel were achieved in the absence of a just solution to the Palestinian problem, there would never be the durable and just peace upon which the entire world today insists. . . . As for the Palestinian cause, nobody can deny that it is the crux of the entire problem. Nobody in the world today can accept those slogans propagated in Israel ignoring the existence of the Palestinian people and questioning even their whereabouts. The cause of the Palestinian people and their legitimate rights are no longer ignored or denied today by anyone . . . Even the United States, your prime ally, has opted to face up to reality and admit that the Palestinian people are entitled to their legitimate rights, as the Palestinian problem is the core and essence of the conflict. There can be no peace without the Palestinians. It is a grave error of unpredictable consequences to overlook or brush aside this cause.

President Sadat presented the elements of Egypt's peace plan before the Knesset, as follows:

- — the termination of the Israeli occupation of all the Arab territories occupied since 1967, including East Jerusalem;
- — the realization of the inalienable rights of the Palestinian people and their rights to self-determination including the right to establish their own state;
- — the right of all states in the area to live in peace within secure boundaries, based on the recognition that the security of international borders can be established through agreed-upon arrangements and international guarantees;
- — the commitment by all states in the region to conduct relations among themselves according to the purposes and

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principles of the U.N. Charter, in particular the peaceful settlement of disputes and the abstention from the threat or use of force; and

— the termination of the state of belligerency in the area.

Thus it was abundantly clear that Egypt viewed the Palestinian problem as being at the very heart of the Middle East conflict and that an unjust peace that would not guarantee the rights of the Palestinian people would have no future. Indeed, Egypt is seeking a comprehensive peace and not a separate or bilateral agreement with Israel. And during long hours of negotiations with the Israelis, Egyptians have sought to link the withdrawal of Israeli forces from Egyptian territory to the withdrawal of Israeli forces from Palestinian territory. Every effort was exerted by Egypt to associate the solution of the Egyptian question with that of the Palestinian question, in order to lay special emphasis on her comprehensive approach to the peace process.

This view was rejected by the Israelis, who opposed the linkage in the timing of the two courses. But in substance as well as in fact, the linkage does exist: on March 26, 1979, Egypt and Israel signed what amount to two complementary treaties. The first one envisages a phased withdrawal of Israeli forces from Sinai, while the second one envisages the partial withdrawal of these forces from Gaza and the West Bank and the establishment of an autonomous Palestinian Authority in these territories during a transitional period. It also draws the outline for negotiations between all parties concerned on an agreement about the final status of these Palestinian territories.

Thus, the role of Egypt in the current autonomy talks is not to reach an agreement on this final status, but rather to agree on a number of transitional arrangements under which a Palestinian Authority would be established with a dual role: it would assume the powers and responsibilities now held by the Israeli military occupation regime, and it would also be able to participate in the negotiations on the final status of the Palestinian territories now under occupation.

Egypt does not pretend to speak for the Palestinians or to have a mandate to decide on their behalf. It is the Palestinian Authority which will be able to voice their wishes and concerns in the negotiations and pave the way for the process of self-determination. This, by itself, rationalizes the firm intention of Egyptian diplomacy to continue, after the Israeli withdrawal from Sinai due in April 1982, to pursue the negotiations with the Israelis and the Americans with the aim of achieving full autonomy for the

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Palestinian people on their own territory according to the Camp David framework.

What Egypt has in mind is that the Palestinians and other Arab parties concerned join these negotiations. It is obvious, however, that only tangible and positive results would induce them to do so. Hence the emphasis laid by Egypt on the necessity for the Israelis to adopt a number of confidence-building measures, to discard the policies of economic sabotage, psychological warfare and cultural frustration being conducted against the Palestinians in the occupied lands.

In an official aide-mémoire dated October 13, 1980, Egypt specified her demands for such confidence-building measures and demanded a commitment by Israel to:

- freeze the establishment of settlements in the West Bank and Gaza during the five-year transitional period;
- affirm her readiness to engage in negotiations with any Palestinian group that would accept U.N. Security Council Resolution 242;
- give assurances that Israeli settlers in the West Bank and Gaza would have no right to participate in the vote concerning the establishment of the Palestinian Authority;
- recognize the fact that the Arabs of East Jerusalem constitute an integral part of the Palestinian people and will participate in the vote establishing the Palestinian Authority;
- restore the expropriated lands and properties in the West Bank and Gaza to the Palestinian Authority;
- permit the resumption of the activities and commercial operations of the Arab banks in the West Bank and return expropriated or frozen deposits;
- lift the ban on political meetings and allow freedom of expression in the West Bank and Gaza;
- suspend any policies or practices that would create tension or render difficult the implementation of the Camp David framework's provisions concerning the establishment of the Palestinian Authority;
- abolish all restrictions on the freedom of movement of the inhabitants in the occupied territories;
- grant an amnesty to Palestinian political prisoners;
- cease military maneuvers in the West Bank and Gaza;
- reunite Palestinian families by allowing the return of those members who were forced to flee their houses and villages in 1967;

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— allow a number of displaced persons to return to the West Bank and Gaza;
— put an end to the restrictions on the use of water for irrigation purposes in the Gaza farms; and
— refrain from imposing any restrictions on the Arab producers of citrus fruits, etc.

If the Israelis do want a comprehensive peace, if they do want other Arabs to join the peace process, then it is up to them to respond to these Egyptian proposals and to desist from practices that can only deepen mistrust and hatred. Mass arrests, deportation of mayors and notables, destruction of homes, building of illegal settlements, violation of property rights, collective punishments, and the denial of freedom are not only contrary to the Fourth Geneva Convention but more importantly indicate a lack of will to reach a just settlement as defined in the Camp David accords. Only the achievement of positive results in the autonomy talks and a significant improvement in the quality of life of the Palestinians who for the last 15 years have been living under military occupation can give credibility to the peace process, and hope to the Palestinians. The alleviation of the sufferings of the Palestinians in the occupied territories and the creation of a positive atmosphere are vital to the success of the peace process. This would not in any way make military occupation more acceptable to the people, because an alien occupation is unacceptable as a matter of principle, lenient or harsh as it may be. However, it would help to initiate a dynamic motion and a strong momentum toward transitional arrangements leading to a comprehensive peace.

Occupation by Israel of the West Bank and Gaza will have to end, for three million Israelis cannot go on forever governing one and-a-half million Palestinians and ignoring their national rights and aspirations.

Needless to say, Egypt feels as strongly about ending the occupation of the Golan Heights as she does about ending the occupation of Gaza and the West Bank, including East Jerusalem. Egypt rejects totally both the annexation of East Jerusalem and that of the Golan, as illegal, unacceptable and obnoxious measures that are not conducive to the atmosphere that is necessary to reach a peaceful comprehensive solution. Such unilateral measures contradict the letter and the spirit of the Camp David accords. Egypt in an official statement on December 15, 1981, strongly condemned the Israeli decision to extend Israeli law, jurisdiction and administration to the occupied Syrian territory of the Golan

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Heights and termed it an illegal measure and a violation of international law and the Charter of the United Nations. In U.N. Security Council Resolution 242, which is the basis of the Camp David accords, it is stipulated that the acquisition of territory by war is inadmissible and that it is essential to respect the sovereignty and territorial integrity of every state in the area, including Syria.

Negotiations may have been rendered more difficult by the Israeli measure concerning the Golan, but they must, and will, go on. Through negotiation and dialogue, Egypt seeks to convey, both to the Israelis and to the Americans, her strong opposition to this unilateral Israeli action. She also seeks to exert every effort to have these measures rescinded. After all, what the Israeli Knesset has done, the Israeli Knesset can undo.

In spite of this Israeli attitude, Egypt continues to work for a positive and successful outcome for the autonomy talks. But in these talks Egypt does not for one moment claim to have a monopoly on the ways and means to solve the intricacies of the Middle East problem, or that hers is the only source of wisdom. On the contrary, Egypt has welcomed any attempt to contribute to the peace process, and has even invited new initiatives and suggestions.

The "European initiative" on the Middle East was to a great extent prompted by Egyptian diplomatic efforts to convince Europe that it could not remain unconcerned about the future of peace in the Middle East. With President Sékou Touré of Guinea and with former President Leopold Senghor of Senegal when he was in office, Egypt discussed the shape and timing of a possible African initiative that would open new avenues to the peace process. Contacts between Cairo and several Latin American capitals also encouraged a genuine desire to contribute to the Middle East peace efforts by what might become a Latin peace initiative. In the meantime, when President Nicolae Ceauşescu of Romania and Soviet President Leonid Brezhnev had new ideas and suggestions to make, Egypt welcomed them and indicated her willingness to discuss and study them thoroughly.

When Saudi Arabia took the bold step of putting forward what has become known as the "Fahd Peace Plan," Egypt could only welcome the fact that a major Arab state would opt for a constructive approach that could end the indecisiveness that has plagued the Arab scene. The Saudi proposals are a set of principles derived from Security Council Resolution 242 and other U.N. resolutions. But to translate these principles into practical realities, one would still need a framework and a negotiating process, which

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Camp David has provided. In other words, the Saudi proposals are not an alternative to Camp David, but they need a "Camp David" to be implemented satisfactorily.

Thus, Egypt does not consider that peace in the Middle East is her own exclusive concern. Any proposals are welcomed by Egypt provided that they build upon what has already been achieved through Camp David, take into account what has already been acquired through the present negotiations, and meet with the approval of all the parties concerned. Until such a formula is proposed and accepted by these parties, Egypt under President Mubarak is intent on pursuing the negotiations and efforts to reach a comprehensive, peaceful solution that would bring justice and security for all. Egypt is equally intent on continuing to play her historical role in the peace process and in the negotiations that may take place between the Arabs and Israel to achieve that goal.

The diplomatic relations established between Egypt and Israel will, needless to say, continue at the same level. As stipulated in the peace treaty, relations between the two countries are "normal" relations, the word normal meaning exactly what it says and not implying in any way a concept of special relations, alliance or strategic cooperation. This kind of cooperation might be envisaged the day a comprehensive and just peace is achieved, but nothing in the peace treaty commits Egypt to anything that goes further than normal relations governed by the factors and interests that govern normal relations between any two given countries.

The role of the United States in establishing a just, comprehensive peace cannot be overemphasized. The full partnership role played by the United States in the negotiations between Egypt and Israel has borne fruit in the form of the peace treaty. It is expected that the United States would continue to play the same positive role in order to achieve a just and lasting solution to the Palestinian problem, the crux of the Middle East problem.

Egypt's conviction is that American participation in the peace negotiations is an essential element. This participation has been instrumental in reaching the Camp David accords and the peace treaty. But there is an even more vital role for U.S. diplomacy to play in helping to define the terms of full Palestinian autonomy and to convince the Israelis that only a self-governing Palestinian body with wide-ranging jurisdiction in all fields would have a chance to be accepted by the Palestinians. The United States can also play a part in convincing the Palestinians and the Palestine Liberation Organization (PLO) that their legitimate rights can be obtained by negotiation and that they can find their place in the

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family of nations through a peaceful and legitimate process. But to be able to do that, the United States would have to start talking to the Palestinians, to the organization that is accepted by the majority of them as representative of their aspirations, to the organization that is recognized by the majority of nations—namely the PLO. Contacts have to be established between the U.S. government and the PLO and not only through impromptu meetings in the corridors of the United Nations or at diplomatic parties. This was the gist of the message carried by President Sadat on his last trip to Washington in August 1981. This remains a strong belief of Egyptian diplomacy.

Furthermore, attempts to work out a strategic consensus against foreign hegemony and intervention in the Middle East cannot be based on solid ground until significant progress is made on the Palestinian issue. Egypt, in the past, was drawn into armed conflict with Israel. We were sustained in our effort by Soviet help. We were compelled for long years to live in a "no war-no peace" stalemate. Now Egypt is attempting, with the help of the United States, to make peace, a comprehensive, just and permanent peace. The Camp David process is the only negotiating process in existence which provides hope for the future. Its ultimate goal is a just, comprehensive and permanent peace, based on U.N. Security Council Resolutions 242 and 338.

Egypt's relations with the United States transcend the confines of the Middle East problem, although, as stated above, the U.S. contribution to a stable and just, comprehensive peace is imperative. Egypt and the United States share the common goals of a stable and peaceful Middle East that would significantly contribute to international peace and security.

III

Certain Arab governments criticize the peace process but have been unable to unite not only behind an alternative process but even behind the goals to be attained by such a process. This failure on the part of the Arab governments emphasizes the importance of Egypt's leadership. In playing a leading role in the search for a peaceful and just solution to the Arab-Israeli conflict, Egypt maintains a balance between her own national interests and the wider interests of the Arab nations.

This leading role is nothing new, for in 1949 Egypt was the first Arab state to sign, on February 24, an armistice agreement with Israel, and was followed a few weeks later by Lebanon (March 23), then Jordan (April 3) and Syria (July 20). Again, in 1974,

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Egypt concluded the first disengagement agreement with Israel on January 18, and was followed a few months later by Syria, which concluded a similar agreement with Israel on May 31, 1974. So it is in conformity with historical precedent that Egypt should take the first step toward a peaceful comprehensive settlement and that it would take some time for the other Arab states to be able to follow that lead.

The anxieties and pressures, internal as well as external, which have prevented Arab states from joining the peace process until now, are well understood by Egypt. Also understood are the factors that have induced them to voice, at least in public statements, violent and strong objections to the peace process and Egypt's peace policy.

Egypt, however, as early as December 1977 extended official invitations to Jordan, Lebanon, Syria and the PLO to attend the Mena House Conference together with the United States, Israel and the United Nations.[1] Egypt was and still is discouraged by the Arab attitude and the emotional outbursts against the Camp David accords. Egypt intends to do her utmost to make Arab countries realize that her line of action is in the interest of the Arab peoples in general and of the Palestinians in particular. Egypt's diplomacy tends to convince the Arab states that the negotiations on full Palestinian autonomy can and will bring substantial and meaningful results and benefits for the Palestinians.

Sooner or later, Egypt's actions will make the other Arab governments grasp that the withdrawal of Israeli forces and the return of Sinai to full Egyptian sovereignty constitute a valuable precedent, in accordance with the text of the Egyptian-Israeli Treaty of Peace, which states in its preamble that: "The (Camp David) Framework is intended to constitute a basis for peace not only between Egypt and Israel, but also between Israel and each of its Arab neighbours . . . ." The success of the Camp David accords is bound to have a "snowball" effect and give the peace process more strength, more dynamism and more credibility in Arab eyes. Sooner or later, Arab governments are bound to join the peace process and Egypt's efforts to induce them to do so will be successful.

This is because the present disagreement between Egypt and a number of Arab countries is not in any way the first inter-Arab

[1] The Mena House Conference was proposed by President Sadat after his return from Jerusalem to prepare for the Geneva Conference on Peace in the Middle East, and took place in Cairo in December 1977.

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dispute and will not be the last. In the last three decades alone, more than 30 conflicts between Arab states have erupted, in the Maghreb as well as in the Mashrek, between revolutionary regimes as well as between conservative governments. Some of these conflicts have turned into full-scale local wars and others have caused tensions and diplomatic confrontations. To name only a few, one can refer to the crisis between Syria and Lebanon in May 1949, between the Sudan and Egypt in February 1958, between Lebanon and the United Arab Republic in May 1958, between Kuwait and Iraq in June 1961, between Algeria and Morocco in October 1963, and, last but not least, the Yemen war in 1962 in which Egypt and Saudi Arabia were deeply involved.

Neither is this the first conflict of opinion among Arabs concerning the future of Palestine. And it is not the first attempt by a number of Arab regimes to isolate Egypt from the rest of the Arab world. From the Chtaura Conference in 1962 to the Baghdad Conference in November 1978 or the ill-fated Fez Conference in November 1981, Arab states have tried but failed to take collective action against Egypt, to find an alternative to Egyptian leadership or to solve their differences and quarrels without Egypt.

Meeting in Tripoli in December 1977, after President Sadat's visit to Jerusalem, five Arab states (Iraq, Syria, South Yemen, Libya and Algeria) and the PLO vehemently condemned Egypt and the Jerusalem visit. Diplomatic relations between Egypt and those states were severed thereafter. The summit meeting which was held in Baghdad on November 2, 1978 denounced the Camp David accords and decided to suspend Egypt from the Arab League, to transfer the seat of the League from Cairo and to boycott Egyptian products in the event of Egypt's signing a peace treaty with Israel.

After the signing of the peace treaty on March 26, 1979, Jordan severed diplomatic relations with Egypt on April 1, Kuwait and Saudi Arabia on April 23, followed by other Gulf states, Morocco, Tunisia, Mauritania, Djibouti, and North Yemen. In all, official relations between Egypt and 17 Arab countries were severed. The notable exceptions were Oman, Somalia and Sudan. The PLO is still maintaining a diplomatic mission in Cairo.

Several Arab meetings convened afterward (Baghdad, March 1979; Kuwait, April 1979; Tunis, November 1979) to take measures against Egypt and to isolate her. But all these moves proved futile. In fact the proposition that Egypt is or can be isolated from the rest of the Arab world is absurd: and the total failure of these attempts is due to the fact that the Egyptian population consti-

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tutes almost half of the Arabs. (The populations of Sudan and Egypt together constitute more than half.) Needless to say, the influence of Egypt in culture, science, the arts, technology and economics overshadows by far the rest of the Arab world.

In spite of the severance of diplomatic relations between Cairo and those Arab capitals, transnational relations have continued and even increased: more than two million Egyptian workers, technicians and experts, teachers, doctors and judges are performing a well-appreciated mission in these Arab countries; private Arab investment continues to flow into Egypt; and Cairo remains the favorite destination of Arab tourists. Thousands of Arabs of every nationality are learning in schools and colleges in Egypt, and Arab military and police officers are still being trained in Egyptian academies.

Reconciliation at the official level between Egypt and the governments of the other Arab states is bound to come and President Mubarak has made it quite clear that Egypt does not object to such a reconciliation. Ever since his accession to the presidency, he has underlined the futility of press campaigns among Arabs that can only exacerbate the differences, and he has urged Egyptian journalists and editors to refrain from attacking or abusing Arab governments.

There is hardly any doubt, however, that a rapprochement between Cairo and the dissenting Arab capitals will have to take into account the reality of the relations existing between Egypt and Israel. Egypt would not be the only country able to maintain relations both with Israel and the Arab states. A number of countries in the area itself manage to do that quite successfully, namely Turkey, a Muslim country, and Cyprus which has diplomatic representatives from both Israel and the PLO. Besides, the European and the Latin American countries and the United States all have excellent relations with both the Arab states and Israel. So why should the same thing be impossible to realize in Egypt's case? Certainly the fact that Egypt is an Arab country might seem to complicate the issue, but should not the Arabs accept from a sister state what they readily accept from others?

Cooperation in various fields of endeavor and at a variety of levels between Arab states is not only an historic inevitability, but also a matter of political necessity. Inter-Arab cooperation is imperative if we are to face the eco-political and strategic requirements of the future with effectiveness and efficiency. The question is what form such cooperation will take. The Arab League was created in 1945 as an instrument for inter-Arab cooperation. The

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League of 1945 exists no more. Conditions in 1982 are not those that prevailed in 1945.

Clearly a new formula for inter-Arab cooperation needs to be devised. But what shape and content should such a formula have? Examples of regional cooperation mechanisms are available, for example the European Economic Community, the Andean Pact, and the Association of Southeast Asian Nations. Important lessons may be drawn from such experiences. But do such mechanisms suit the particular characteristics of Arab states and the imperatives of inter-Arab cooperation? Arab states have much more in common among themselves than any of the states that comprise the existing regional cooperation mechanisms.

Thus it is important to ask whether an improved version of the League should be set up. Should the Arab League Charter of 1945 be amended or replaced by an entirely new one? What shape and structure should the mechanism have? Should consideration be given to a series of subregional groupings—such as the Council of Cooperation of the Gulf States that is already in existence—linked together in an appropriate manner? These questions have to be answered if a viable and effective mechanism for inter-Arab cooperation is to be established.[2]

The special relationship between Egypt and the Sudan deserves particular mention. Sudan shares with Egypt the blessings of the waters of the Nile and an African, as well as an Arab, identity. History and geography have woven a very special relationship between the two countries and a cooperation that covers many fields. On more than one occasion, Sudan has proved to be a trustworthy ally and has constituted a vital strategic depth for Egypt. For her part, Egypt has never failed Sudan and considers any aggression against Sudan an aggression against Egypt herself. The two countries are bound together by the Arab Common Defense Pact of 1950 and by a bilateral military agreement signed in July 1976. The close and special relationship between Egypt and Sudan has been illustrated by the presence of President Nimeiry at the inauguration of President Mubarak and by the continued consultation and coordination between the two heads

[2] The author has devoted a number of publications to the Arab League, its organizations, and the reforms that might enhance its action. Those publications which are readily available in specialized libraries are: "The Arab League 1945–1955," *International Conciliation*, No. 498, New York, May 1945; "La Crise de la Ligue Arabe," *Annuaire Français de Droit International*, Vol. 14, Paris, 1968; "The Arab League 1945–1970," *Revue Egyptienne de Droit International*, Vol. 25, Cairo, 1969; "The Arab League 25 Years After," *East Africa Journal*, Vol. VIII, No. 6, June 1970; "La Ligue des Etats Arabes," *Academie de Droit International*, Vol. III, The Hague, 1972; "Les Relations Entre la Ligue Arabe et l'O.U.A.," *Annuaire Français de Droit International*, Vol. 123, Paris, 1977.

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of state. This consultation and coordination puts special emphasis on African affairs and aims at working out a common approach between Cairo and Khartoum toward African problems.

IV

The observation that Egypt is a gift of the Nile remains true, as long as the sources of the Nile are secure and the flow of its fertile waters continues freely. In this context, Egypt has reached the conclusion that establishing close cooperation among the countries of the Nile Basin can serve both the interests of the riparian states and those of the river itself. The idea was to start with a kind of technical cooperation on the model of the cooperation existing among the riparian states of the Senegal or the Niger Rivers. This "Nile Basin Organization" would consider joint projects, work or programs which would be of an interstate nature within the Nile Basin, in the fields of water, hydropower, agriculture, livestock, forestry, mineral exploitation, disease and pest control, transport and communications, trade, tourism, wildlife conservation, fisheries and environmental protection.

This project relies on the fact that the Nile Basin constitutes a hydrological and geographical unit providing a formidable base that could ensure effective cooperation among the riparian states and secure the harmonization of national development programs. This form of cooperation would be in accordance with the Lagos Plan of Action adopted by the Organization of African Unity (OAU) in 1980, which commits African countries to establishing national, subregional and regional institutions in order to promote the objectives of self-reliance and inter-African economic cooperation and integration.

Serious studies have been made by Egyptian experts, a blueprint for a charter of a Nile Basin Organization has been drafted, and contacts have been made with the other states concerned. All of these states have shown themselves as being perfectly aware of the importance of this project.

Toward that end, Egypt extended an invitation for a meeting of the ministers of irrigation and water supply of Burundi, Ethiopia, Kenya, Rwanda, Sudan, Tanzania, Uganda and Zaïre, which was due to be held in October 1981. Although that meeting had to be postponed after the tragic death of President Sadat, the new Egyptian president has expressed interest in the project, and steps to implement it are expected to be taken quite soon. In fact, preparatory talks between Egypt and Sudan have already started in an encouraging way.

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The Nile alone might explain the importance Egypt attaches to Africa, but Egyptian vital interests are not confined to the Nile—Egypt's African policy is much broader. Egypt is organically, culturally and physically an African country, which contributed in a decisive way to the birth of the OAU in 1963 and before that played an essential role in the struggle for independence of the African continent. A majority of African leaders who are now at the helm in the governments of their own countries, have, at one time or other during their fights for freedom and independence, found refuge and assistance in Cairo and set up their headquarters there in the "African Society" in Zamalek.

Today, Egypt cannot remain indifferent to the struggle in southern Africa between the remnants of colonialism and forces of racism on the one hand, and the people of Namibia on the other, or to the plight of those Africans living under the detestable regime of apartheid. Neither can Egypt remain indifferent to attempts to introduce the new cold war and superpower rivalries into a continent that has been until now remarkably well preserved from such ills.

Likewise, Egypt opposes the attempts of a number of African Arab countries to introduce inter-Arab disputes to the African scene. These countries have tried to create a tactical alliance with a handful of Marxist African regimes to use them in their own confrontation with Egypt. This has failed in swaying the African countries against Egypt. This failure became abundantly clear in the Monrovia (1979) and Freetown (1980) OAU summit conferences. Later these Arab countries shifted their emphasis and worked hard to enroll Muslim African countries against the Egyptian peace policy. But the Nairobi summit (1981) showed the futility of such attempts.

The injection of inter-Arab quarrels into the huge number of already existing African problems has only resulted, in several instances, in the disruption of the work of the OAU and the complete failure of the institutions of Afro-Arab cooperation, set up in the Afro-Arab summit in Cairo of March 1977. This attitude is harmful both to the interests of Africa and to the peace effort. The foremost priority of African concern and action should be the fight against colonialism and apartheid, and the war against poverty, hunger and underdevelopment.

With that in view, Egypt established in 1980 a special Egyptian Fund for Technical Assistance to African States, through which Egyptian technicians, doctors, teachers and other experts can be sent to these states, thus contributing to their economic development and the welfare of their people. During 1981, this fund,

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which has an annual budget of $2 million dollars, concluded agreements with four African states (Burundi on September 6, Tanzania on September 28, Kenya on November 3, Zambia on November 22) and is in negotiation with 12 other states with a view to concluding similar agreements with them. Applications from 17 African governments for experts and technicians are currently under study by the fund. Until November 1981, the fund had already approved sending 282 experts and granting 187 scholarships.

If the accession of President Hosni Mubarak brings any change in Egypt's African policies, it will certainly be toward confirming the Egyptian commitment to African causes and a vigorous and active diplomacy in the search for peaceful solutions to African conflicts within the framework of the OAU. This can be attributed to the fact that President Mubarak has traveled widely across the continent, met with the majority of African leaders and established excellent personal relations with them. The new president has also attended a large number of African summits and acquired a wealth of experience in African affairs and a deep understanding of African problems. Egypt under President Mubarak will continue to strive for the freedom of Africa, its nonalignment and the welfare of its people.

V

Nonalignment is one of the cardinal features of Egyptian foreign policy, as Egypt played a major role during the 1950s, together with India, Yugoslavia and Indonesia, in defining nonalignment and creating a movement that today brings together two-thirds of the nations of the world.

Today, more than ever, the nonaligned movement can help shape long-term solutions that would lead the world out of its political and economic crisis, but no such solutions can be found through the power politics and the rivalry between the two blocs. Egypt strongly adheres to the principles of nonalignment and remains faithful to the ideals set out by the founding fathers of the movement. This has given Egyptian diplomacy a strong motivation to exert all efforts to preserve the identity of the movement and its independence from blocs and bloc politics. The contention that one of these two blocs could be described as a natural "ally" of the nonaligned movement is a fallacy and a dangerous one at that. This notion goes against the very essence of nonalignment, its philosophy and its raison d'être and could destroy the entire movement.

Egypt, together with a number of other nonaligned countries

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which remained in the mainstream of nonalignment, has been instrumental in exposing the dangers that would derive from linking the movement to one or the other of the two blocs. The nonaligned movement will be in a position of political equidistance between the superpowers or it will not exist. The aim of genuine nonalignment is to avoid polarization and power-bloc rivalries in international relations.

This Egyptian attitude has induced a number of Marxist nonaligned countries to forge an alliance with those Arab states which rejected Egypt's peace policy after the signing of the Camp David accords. These countries have done their best to use the rift in the Arab ranks for their own purposes. This unholy alliance attempted to have Egypt expelled from the movement during the sixth conference of heads of states and governments in Havana in August 1979. But this attempt failed and the majority of the nonaligned movement acknowledged the fact that Egyptian peace policy was in conformity with the principles of peaceful coexistence on which the movement was erected. The ministerial meeting of New Delhi in February 1981 has reaffirmed strongly the original principles of nonalignment and the necessity of the continued independent orientation of its policies.

Egypt has exerted all her efforts toward that end and has considered the positions taken by the New Delhi Conference as a step in the right direction and a success for all authentic nonaligned states and for the movement itself. Egypt's own nonalignment is not in question. Egypt's relations with one superpower or the other have not in any way or at any time impaired her capacity to make her own decisions and adopt positions toward superpowers only on the strength of their political behavior and attitudes toward Egypt, the Arabs and in international relations in general.

Furthermore, in spite of the problems that have in the past clouded relations between Cairo and Moscow, Egypt would like nothing more than to turn a new page and establish friendly relations with the Soviet Union on the basis of the principles of respect for the sovereignty and independence of states and of nonintervention in one another's internal affairs. In addition, a positive and constructive Soviet contribution to the peace efforts, especially in regard to the framework of Camp David, would be welcomed by Cairo and might help to overcome a number of obstacles that lie on the road to comprehensive peace. It is also significant that the problems that arose in Egyptian-Soviet relations did not affect Egypt's relations and cooperation with several East European countries or other socialist countries in Asia.

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Close cooperation with the United States in the political, economic and even military fields is qualified by our adherence to the basic principles of nonalignment. The Americans have been told: no military bases in Egypt, no military pacts, no ties that would restrict in any way Egypt's total freedom to assess the behavior of each and every country, be it in the Western or Eastern bloc. The only criterion for Egypt's attitudes in international relations would be conformity with her principles and her national interests.

In that same context, Egypt, which traditionally had close ties and cooperation with the countries of Western Europe, lays a special emphasis on her relations with these countries and is exerting efforts to strengthen and deepen her cooperation with them. Not only is this happening because these relations are beneficial in themselves, but also because they are an important factor that can counteract the effect of magnetic polarization by the two superpowers. This concern is also present in the desire to increase and strengthen cooperation with China, which has had a special place in Egypt's foreign policy ever since Egypt became one of the first non-socialist countries to recognize the People's Republic and opened an embassy in Beijing in 1955.

The fact of the matter is that Egypt, by virtue of her geographic position and cultural heritage, her belonging to the Third World, her African and Arab identity, and by her leading role inside the movement, will continue to be one of the staunchest nonaligned countries, out of conviction as well as interest. Besides, President Mubarak was keen in his first major speech as head of state to stress his strong attachment to the policy of nonalignment. He declared in this speech, delivered to a joint meeting of the People's Assembly and the Shura Council at the beginning of the parliamentary session on November 8:

> We adhere to the policy of non-alignment and positive neutrality. We call for the strengthening of the non-aligned movement and ridding it of impurities which were introduced in it in recent years disrupting its balance which had existed among member states when the Movement was at its peak.

The President also said:

> We believe that the course of non-alignment is the best course which serves the interests of people with respect to freedom, security and justice.
>
> In formulating our relations with the big powers we are keen to deal with them in accordance with the good will shown by each and their readiness for true cooperation without interfering in our internal affairs or transgressing on our sovereignty or our free will. Egypt is an Arab African Country neither eastern nor western.

After recovering her full territorial integrity in April 1982,

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Egypt will certainly be able to devote more of her energy and effort toward achieving greater unity and solidarity within the nonaligned movement and toward more efficiency in its action.

In a period when the new cold war seems to be gaining ground, and when tensions between the major powers are mounting in an alarming way, the nonaligned movement needs more dynamism, more cohesion, and more effectiveness. Its vision and its role in helping to solve international disputes becomes all the more necessary at a time when the superpowers have resumed their frightening nuclear arms race and when attempts to build a badly needed new economic order are faltering.

VI

Inasmuch as Egypt's policy of peace and reconciliation is not a tactical option but a strategic one that reflects the spirit of Egypt and her conception of her national interests and the interests of all the peoples of the area including the Palestinians, the government of President Mubarak will pursue this policy and persist in its endeavor to attain a comprehensive and just peace that would ensure that the October 1973 War will indeed have been the last war between Arabs and Israelis. Egypt's desire for reconciliation is, however, by no means restricted to Israel. It includes other countries which at a certain stage have chosen to take a path that has led to a confrontation with Egypt.

Egypt thus has every intention of assuming fully her responsibilities as an Arab country, as an African country and as a cofounder of the nonaligned movement. She will continue to play her traditional leadership role of bridging civilizations and different concepts, thus serving the cause of peace and justice and helping the forces of progress and conciliation. In short, Egypt will continue to work for a better world for future generations.

The personality of President Hosni Mubarak, a man with a deep sense of respect for the Egyptian heritage and institutions, implies that Egypt's foreign policy will acquire a new style, dominated by a spirit of conciliation and moderation, and characterized by the refusal of the new president to let Egypt be drawn into any kind of political or military adventures—a new style for a policy that reflects the aspirations and hopes of the Egyptian people.

Nevertheless, history and geopolitics are bound to continue to play their part, in imposing upon Egypt a dynamic and active diplomacy that might not always be related to the real means and resources of the country but that stems from the burdens Egypt has assumed during past centuries.

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Yitzhak Shamir

ISRAEL'S ROLE IN A CHANGING MIDDLE EAST

Traditionally, the twin goals of Israel's foreign policy have always been peace and security—two concepts that are closely interrelated: Where there is strength, there is peace—at least, shall we say, peace has a chance. Peace will be unattainable if Israel is weak or perceived to be so. This, indeed, is one of the most crucial lessons to be learned from the history of the Middle East since the end of the Second World War—in terms not only of the Arab-Israel conflict, but of the area as a whole.

The Middle East is a mosaic of peoples, religions, languages and cultures. Although the Muslim-Arab culture is predominant, it has not produced any homogeneity. A vast number of currents—religious and political—are vying with each other, cutting across political borders. The region is permanently in ferment, and frequently unrest flares up in violence, terror, insurrection, civil strife and open and sometimes prolonged warfare. The surprise invasion of a weakened Iran, still in the throes of the Khomeini upheaval, by neighboring Iraq, whose armed forces have been substantially beefed up by the Soviet Union, is perhaps the most dramatic and the most obvious example, but there are of course many others.

The most remarkable feature, in our context, of these chronic manifestations of unrest and belligerence is the fact that the great majority of them have nothing to do with Israel or with the Arab-Israel conflict. There were some outsiders, 20 and 30 years ago, who sincerely, but out of ignorance, believed that a solution of the Arab-Israel conflict would lead to regional stability and open a new era of progress. Nothing could be further from the truth. There have, it is true, been four major wars between Israel and its Arab neighbors. However, a full count of the instances of trouble and strife, both domestic and international, in North Africa and Western Asia, would show that the overwhelming majority have no connection whatsoever with the Arab relationship to Israel.

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II

A more recent version of the old theory that the Arab-Israel conflict is the root of all the trouble in this region is the contention that the solution of the "Palestinian problem" is an absolute condition to any progress towards peace and stability.

The term, "the Palestinian problem," is deliberately flexible and lends itself to several simultaneous interpretations. One is humanitarian and focuses on the Palestinian Arabs displaced in 1948, whose plight should be alleviated, if not resolved, by economic means. Another interpretation is quasi-humanitarian, quasi-political. It maintains that there is a Palestinian people, not just refugees in the humanitarian sense, and since they have no home (after all, there is no country called Palestine), justice requires they should be provided a homeland in some portion of the land once called Palestine, alongside of Israel. The third interpretation is rejectionist and politicidal. According to this theory, the right to that land which was once called Palestine belongs exclusively to those who today call themselves Palestinians (by which they mean Palestinian Arabs). This right, the theory holds, should first be universally recognized, title to the land should be "restored" to them, and they should be allowed to decide whether and under what terms to coexist with a truncated Israel or insist on its dissolution as a distinct state.

These definitions are not precise, and there are variations and combinations. Arab spokesmen have taken to making obscure references to "the rights of the Palestinian people," using variations on the above themes, all as a means of masking their rejection of Israel and of its right to exist as a permanent, viable entity in the Middle East. The standard-bearer of the totality of Arab attitudes against Israel's existence is the Palestine Liberation Organization (PLO). Entrusted with the task of serving as a spearhead of the Arab action against Israel, its leaders have perfected the use of a wide range of themes to suit their tactical needs in their terrorist and propaganda war against Israel. Hence, outsiders who voice support of the solution of "the Palestinian problem" would do well to adopt much more precise language, lest they discover that they were unwittingly providing encouragement to the proponents of Israel's elimination.

On its part, Israel has addressed itself to the substance of the problem squarely and comprehensively, with a sincere desire to contribute to a fair and just solution of the legitimate aspects of this problem.

On the subject of a political entity, a homeland for the Arabs

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of the former British-mandated territory of Palestine, the facts speak for themselves. The state known today as the Kingdom of Jordan is an integral part of what once was known as Palestine (77 percent of the territory); its inhabitants therefore are Palestinian—not different in their language, culture or religious and demographic composition from other Palestinians. No wonder, then, that Palestinian Arab leaders of all political persuasions have on numerous occasions declared that Jordan and Palestine are identical, and that Jordanians and Palestinians are one and the same. It is merely an accident of history that this state is called the Kingdom of Jordan and not the Kingdom of Palestine.

As a result of political decisions, military conflict and movements of population over a period of some 30 years (1920 to 1950), Palestine was effectively partitioned into two parts. Palestinian Arabs have exclusive domain over Trans-Jordan, or eastern Palestine, while Palestinian Jews form a majority of Cis-Jordan, or 23 percent of the original Palestine, comprising Israel within the pre-June 1967 armistice lines, Judea, Samaria and the Gaza district. The reintroduction of the term "Palestinian" and its exclusive application to Arabs of Cis-Jordan (the "West Bank") is, therefore, a semantic exercise and a calculated maneuver designed to back a new claim to the entire area of western Palestine and to undermine the legitimacy of Israel. As for the humanitarian aspect of the dislocation of population resulting from the Arab wars on Israel, it is time for the international community to address a call to the Arab governments, especially those with large financial resources at their disposal, to extend their help to their brethren, as Israel did for the close to a million Jews from Arab lands who fled to Israel as a result of the same conflict.

Reduced to its true proportions, the problem is clearly *not* the lack of a homeland for the Palestinian Arabs. That homeland is Trans-Jordan, or eastern Palestine. There are, however, 1.2 million Palestinian Arabs living in the territories which have been administered by Israel since 1967 in Judea, Samaria and Gaza. Their status and problems were discussed at great length at Camp David. The granting of sovereignty to those areas was ruled out by Israel. A second Palestinian Arab state to the west of the River Jordan is a prescription for anarchy, a threat to both Israel and Jordan, and a likely base for terrorist and Soviet penetration. Hence, it was finally resolved at Camp David to implement an Autonomy Plan for the inhabitants of those areas, on a five-year interim basis. The proposal was made by Israel and accepted by

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the other partners of the Camp David accords, Egypt and the United States. It is not intended as the ultimate solution of the problem represented by these areas and their inhabitants, but as an interim arrangement designed to achieve two objectives: (a) to allow the Arab inhabitants of these areas the fullest feasible freedom in running their own lives, and (b) to create optimal conditions of peaceful coexistence between Arab and Jew.

Israel has made it clear, at Camp David and since, that it has a claim to sovereignty over Judea, Samaria and Gaza. In order, however, to keep the door open to a solution that will be acceptable to the parties, as envisaged at Camp David, Israel has deliberately refrained from exercising its rights under this claim. The claim will undoubtedly be presented at the end of the five-year interim period, and, while it is realized that there will be a similar claim on the Arab side, by that time one would hope that the kind of atmosphere will have been created that will make it possible to reach an agreement involving a solution acceptable to both sides. It should be clearly understood, therefore, that just as Israel is refraining from pushing its own solution at this time, by the same token the Arab side must refrain from pushing now for measures or the adoption of principles (such as self-determination, an embryo parliament in the autonomous territories, and the like), that would clearly fall beyond the parameters of Camp David and that would tend to prejudge the ultimate outcome of the negotiations on the final status of these areas. Autonomy, in other words, must be allowed to perform the function it was intended to perform—namely, to serve as an interim arrangement, pending the ultimate solution that is to be addressed at a later stage.

Meanwhile, Israelis and Arabs are learning to coexist in Judea, Samaria and Gaza—ultimately the best way to reconciliation and peace. Israelis will continue to reside in those areas. As in the past, this will not be done, of course, at the expense of the Arab inhabitants and their property. But, as Judea and Samaria constitute the heartland of the Jewish people's birth and development as a nation, Israel will not be party to a design that would deny Jews residence in those areas.

No less important, the Israeli presence in these areas, both civilian and military, is vital to Israel's defense—as should be abundantly clear against the background of the recent history of the region and of Israel's patent inability to maintain a large standing army on its borders. The defunct pre-1967 armistice lines—which for nearly 20 years proved to be a prescription for

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chronic instability and warfare—have long since ceased to have any relevance in the context of the search for a viable Middle East peace. Certainly, Israel will not entertain any notion of a return to those lines or anything approximating them. On this point there is, in Israel, virtually universal agreement.

A final word on the Palestinian subject. There are some, no doubt well-intentioned but largely unaware of some very important facts, who have proposed that Israel negotiate with the PLO. They point to the absence of any organized voice, other than the PLO, representing "the Palestinians" and to the existence of ostensibly moderate elements in that organization that may be encouraged to seek a political solution that would include recognition of Israel.

The real problem is not whether to deal with the PLO or not, but whether it would serve any useful purpose whatsoever. Even if one were to overlook their bloodthirsty modus operandi, their subservience to Soviet aims and their key role in international terror, the PLO's very raison d'être is the denial of Israel's right to exist, thinly veiled behind the cover of an ostensibly legitimate call for Palestinian statehood. The very act of granting the PLO a status—any status—in the political negotiations would be self-defeating. It would elevate its standing from that of a terrorist organization to that of a recognized aspirant to a totally superfluous political entity. Hence, association of the PLO with any aspect whatsoever of the political process and the prospects of peace are mutually exclusive.

III

In the course of arduous negotiations at Camp David, the obstacles to peace with Israel were finally removed when Egypt broke away from the PLO-rejectionist platform on the Palestinian issue. The demand for a second Palestinian Arab state—one major obstacle—was set aside, in favor of an attempt at coexistence through the Autonomy Plan. Another hurdle was cleared with the unequivocal acceptance of Israel by Egypt and the undertaking of the steps necessary to normalize relations between the two states.

By the beginning of May 1982, implementation of the territorial aspects of the Egypt-Israel Treaty will have been completed and the former international border between the two countries reestablished. The normalization of relations between Egypt and Israel will enter a new phase.

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On its part, Israel will do everything it can to ensure that the peace treaty with Egypt will serve as a solid base from which to expand the peace process toward a wider circle of participants. This can be achieved only by means of an Israel-Egypt partnership that is encouraged by active U.S. participation. It has a chance of success, provided that no alternative proposals and plans other than the Camp David accords are introduced into the process. No one is so naïve as to believe that this is a goal which will be easily attained. But this combination of states, working together toward a worthy and vital objective, has already proved its capacity to overcome obstacles and make progress. Together, they are a formidable force for stability that cannot be bypassed by any factor in the Middle East. In order for this policy to bear fruit, much patience and persistent effort are required.

Israel perceives the Camp David accords as a process and a program of action that may take considerable time to reach full fruition. Steps taken in this process until now should be seen as deposits on a long-term installment plan. Both Israel and Egypt have made commitments at the bilateral level of relations and beyond. Hence it is mischievous and destructive to imply that Camp David has run its course and other avenues should be explored. Such an attitude—particularly when displayed by governments that refused or hesitated to support the accords—is no less than cynical.

Those who have hesitated to voice their support and offer their contribution to buttressing the Egypt-Israel peace because of opposition to it by the rejectionist Arab governments have committed a serious blunder. If, God forbid, this first step toward Arab-Israel accommodation were to falter or fail, it would take the entire region back to a situation of sustained deadlock, if not belligerency. Moreover, it would serve as proof that the Arab world as a whole is not ready for peace. The chances, then, for a renewal of the peace effort would be drastically reduced. No one, least of all Israel, would be willing to take the slightest risk in order to re-energize the process. The rejectionists and the terrorists would applaud, but the interests of those who shortsightedly turned their backs on Camp David would, in all likelihood, be exposed to grave danger in a deteriorating situation. After three decades of hostility and strife, the process of peace and normalization must be given a chance to take hold and bear fruit. In time, it should have a beneficial impact on other issues, beyond the strictly bilateral Israel-Egypt level.

The magnitude of Israel's sacrifice for the achievement of the

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peace treaty has not been given proper recognition by the international community. From 1968 onward, Israel invested $17 billion in the Sinai Peninsula—in airfields, military installations, development of oilfields, infrastructure, towns and farm villages. The cost of the military redeployment to the Negev is estimated at $4.4 billion. Beyond the financial burden, and the strategic significance of the withdrawal from Sinai, the uprooting of several thousand Israelis who built their homes in the townships and villages along the eastern edge of Sinai is a traumatic event that has made a deep imprint on the entire nation.

With the transfer of the Sinai Peninsula to Egyptian sovereignty and the normalization of relations with Egypt under the peace treaty, Israel has gone a long way toward implementing the provisions of the 1967 U.N. Security Council Resolution 242. The Sinai Peninsula, it should be remembered, covers more than 90 percent of the territory that came into Israel's possession in the Six-Day War. Thus Israel has demonstrated, through concrete action and considerable risk and sacrifice, that it seeks peace and coexistence with its neighbors. It is now up to its neighbors to come forth with a similar demonstration of peaceful intent and readiness.

IV

On December 14, 1981, Israel decided to abolish the military administration over the Golan Heights that was established after the 1967 Six-Day War and to apply Israeli law, jurisdiction and administration to that area.

Ever since 1948, the Syrian army had, from the Golan Heights, intermittently shelled and sniped at civilian targets in the valley in northeastern Israel. A 700-square-mile strip of the Heights was captured by Israel in the course of the Six-Day War of June 1967. The area was again the scene of heavy fighting during the 1973 Yom Kippur War, when the Syrians launched their surprise attack in an effort to drive Israel from the Heights and continue their push into the Galilee. Israel's possession of the Heights was a crucial factor that prevented the Syrian tanks from invading Israel, delaying them up on the plateau until reinforcements could be rushed to the Golan. In the course of the Israeli counterattack, the Israel Defense Forces captured a large additional area, coming to within some 25 miles of the Syrian capital of Damascus.

In May 1974, in an effort to achieve the beginning of an accommodation with the Syrian Government, Israel's then Prime Minister Golda Meir agreed to return to the Syrians, unilaterally,

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the entire area it had captured in the Yom Kippur War, plus the town of Kuneitra, which had been occupied in 1967. This gesture was undertaken, through the good offices of U.S. Secretary of State Henry Kissinger, in the context of a disengagement agreement. It was designed to facilitate progress towards a more stable political agreement and make possible the return of civilian life on both sides of the cease-fire lines.

The Syrian Government, however, chose to revert to its former hostile and belligerent posture. It rejected all negotiation with Israel and refused to accept U.N. Security Council Resolution 242. It did not permit the return of civilians to Kuneitra. It spearheaded the Arab Rejectionist Front against Israel and gave military and political support to various PLO terrorist groups, especially those that specialized in bomb outrages against Jewish targets in Europe. President Hafiz al-Assad left no doubt with regard to his intentions when he stated on December 13, 1981, that "even if the PLO were to recognize Israel, Syria would not be able to recognize it." In the face of this total denial of Israel and of accommodation with it, a broad national consensus developed in Israel that we should not return the Golan Heights to Syria under any circumstances. After 14 years, Israel decided to give formal expression to this position by an act of law.

Since Syrian leaders have repeatedly stated that they would refuse to make peace even if the Golan Heights were to be returned to their possession, it is simply erroneous to contend that Israel's Golan Law has added an obstacle to peace with Syria. Now as before, Israel remains ready to negotiate a peace treaty with Syria without prior conditions.

V

The circumstances surrounding Israel's rebirth, in which the entire Arab world rejected what it chose to regard as an alien entity, have been undergoing a subtle change. The ostracizing of the Jewish State, coupled with periodic warfare, implanted in many minds a picture of total polarization between two hostile camps. The reality was different, especially since the 1967 Six-Day War, but the change was barely noticed. Hence, President Sadat's visit to Jerusalem in November 1977 came as a total surprise to the outside world.

Behind the scenes, however, many bridges had already been extended across the wide gulf separating Arab and Israeli. After June 1967, Israel administered areas inhabited by more than a

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million Arabs, many of whom had close connections with the neighboring states. The bridges remained, even expanded, and an unofficial human relationship developed. At the same time, clandestine contacts between Israel and leading personalities in several Arab states were maintained on a continuing basis. Without them, the late President Sadat's first visit to Jerusalem would not have been possible. Some prominent Arabs visited Israel incognito. Thousands of nationals of Arab states who were related to Arabs residing in Israel-controlled territories were permitted to visit their relatives, and most of them took advantage of the opportunity to tour Israel and meet with Israelis.

Beyond the expanding personal contacts, Israel, as a Middle Eastern country, was drawn into growing involvement in international relationships that had no direct bearing on the Arab-Israel level. Israeli governments have studiously refrained from intervening in the internal affairs of Israel's neighbors. But Israel could not maintain a disinterested stance when conflicts between its neighbors threatened its own security or increased the danger of upsetting a tenuous regional balance.

Thus, Israel, in coordination with the United States, acted in September 1970 to deter a Soviet-sponsored Syrian invasion of Jordan. In 1975, Israel was involved in an American-sponsored attempt at defining the limits of Syrian intervention in Lebanon. As a result of the Syrian invasion of Lebanon, the continuing threat of a total Syrian annexation of that hapless country and the terrorist attacks from southern Lebanon, Israel was drawn into the Lebanese situation.

The crowning event in a growing Israeli involvement in regional realities was, of course, the Egypt-Israel peace and the opening of the borders between the two countries. We are aware of strong voices, in some Arab countries, pressing Egypt to close its borders with Israel once the last Israeli has departed from Sinai. The message being beamed to Cairo runs along these lines: "We understand you had to conclude a treaty, establish embassies, and open the borders, because these were the only means of restoring Sinai to Arab sovereignty. From this point on, however, it would be treasonable to the Arab cause for Egypt to continue this relationship with the Zionist enemy. We will welcome you back to the Arab fold only if you reestablish the wall around Israel and resume the siege." Egypt has rejected this message and stated clearly that it will not resume relations with the other Arab states at the expense of peace with Israel. There are signs that some Arab governments are attuning themselves to this reality, in spite

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of their continued rejection of Israel on the ideological level. Elsewhere in the Arab world, the rejectionist spirit is as vibrantly negative as ever.

Of course, it will be up to Egypt's leadership to contend with the rejectionists and show them the way to breach the psychological barrier behind which they are entrenched. Whatever the outcome of this test, I am convinced that, sooner or later, Israel will establish relations with other Arab capitals. I will not rule out even Damascus among those capitals. Such developments are typical of paradoxical Middle Eastern realities, which outsiders find so difficult to digest. Accommodation with Israel by some will be accompanied by sustained total hostility to Israel by others. Those defined by the West as moderates are not necessarily so. Plans and proposals launched on occasion by these supposedly moderate countries—such as the Saudi eight-point plan of last summer—are often designed, in reality, to reduce Israel to a situation of defenselessness.

Thus, within the context of a powerful, basically unchanging ideological rejection of Israel, there are two conflicting currents coursing through the Arab world. One—which is, as of now, the prevailing current—rejects the Jewish State wholly and without reservation, in theory and in practice. The other—only just beginning to crack the surface of developments in the Middle East—accepts the fact of Israel's existence and is ready, in some sort of pragmatic fashion, to come to terms with that existence. Israel is learning to live with this reality, and to try to build on the hope that, in the course of time, this pragmatism can be developed into something more permanent and more meaningful.

VI

A crucial role in determining the future direction of events in the region can be played by forces and influences outside the region.

The history of the involvement of foreign governments in Middle Eastern politics is not a happy one. Attracted by the strategic importance of the region and, more recently, by its immense natural resources and bank deposits, most governments have sought to apply a political gloss to their perceived economic interests by making political statements on the Arab-Israel issue in response to Arab pressures.

The internationalization of the conflict between Israel and its Arab neighbors has proved futile. For the Arab governments, for a long time, it served as a means of mobilizing international

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pressure on Israel, imposing a solution on it and evading the need for recognition and peace with Israel. Camp David has dealt a death blow to this course of action and, with it, to the notion that a viable Arab-Israel peace can be negotiated in a framework such as the defunct Geneva Conference. In particular, the late President Sadat demonstrated that Israel can be dealt with directly, with meaningful and far-reaching results.

Nevertheless, the Soviet Union has not given up on the "Geneva approach" to Middle East problems. Moscow in recent years has been steadily increasing its identification with the Arab Rejectionist Front and the PLO. Notwithstanding protestations to the contrary by its spokesmen, it has aided and abetted the Arab cause against Israel's existence. Soviet political and ideological support for Arab extremism against Israel has found expression in treaties of friendship it has concluded with Syria, Iraq and the People's Democratic Republic of Yemen, in which the U.S.S.R. joined in the obscene castigation of Zionism. Arab hopes of exercising the military option against Israel would not have been sustained as they are if not for the immense supplies of sophisticated offensive military supplies from Russia. The Soviet Government has steadily increased its political and military support of the PLO in spite of, or perhaps because of, this organization's central role in international terror and its declared aim of destroying Israel and its population. This totally one-sided stand by the Soviet Union is compounded by its policy of boycotting Israel, and of persisting in its non-relations with Israel since 1967.

Soviet actions demonstrate clearly that the Soviet Union is opposed to peace in the Middle East, is bent on expanding its presence and influence in the region at the expense of regional stability, and has no problem in the choice of means to achieve its objective. Public opinion is far from being a factor in Soviet decisionmaking.

The Soviets will persist in their negative, obstructive role so long as local governments seek its support against Israel and continue to place their faith in the military option. Once those Arab governments decide that peace is more important and will better serve their own interests, the Soviet role will, of necessity, diminish, and the peace camp will expand and encompass a wider circle of participants. It follows that the massive supply of arms by the West to governments in the region, in competition with the U.S.S.R., directly conflicts with the interests of stability and the chances of peace in our region. The Soviets, in any case, have demonstrated again and again that they are capable of matching

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or outdoing any Western arms supply, both in quantity and in sophistication.

Other powers have not resisted the temptation to exploit local conflicts and domestic insecurity for the purpose of selling immense quantities of arms to Middle Eastern governments. The influx of so much military equipment has become a prime source of danger and even greater instability in the region. Since 1980, the Arab "confrontation states" have concluded arms deals worth approximately $30 billion. It is a most unfortunately chosen means of recycling petrodollars. It cannot, by any stretch of the imagination, enhance moderation or contribute to a better and more peaceful Middle East. It places an impossible burden on Israel's shoulders.

In contrast to the other superpower, the United States has a paramount interest in peace and stability in the Middle East. The congruence of interests between Israel and the United States has forged an alliance that has proved to be a formidable factor in promoting these goals. The Camp David accords are an outstanding product of this joint endeavor. America's continued and undeviating support of those accords represents the only way to assure progress toward regional stability and peace.

Normalization of relations with Israel will undoubtedly contribute to the prospects of peace in our region. This applies equally to the African states that broke off diplomatic ties with Israel, at the behest of Egypt and other Arab countries, in the wake of the Yom Kippur War. The ostensible reason for the break was the occupation of African territory—the Sinai Peninsula—by Israel. The peace treaty with Egypt should have removed this obstacle to normalization, and indeed we have been informed that there is a desire on the part of African governments to restore those relations.

A number of Arab governments have been making efforts to thwart the resumption of relations with Israel, using threats and financial inducements. Our experience with African nations has shown that such attempts on African integrity and pride tend to backfire. We hope and expect that Black Africa will assert its independent course and reject such attempts at dictating its policies. For more than a decade, Israel maintained a close and warm relationship with most governments in sub-Saharan Africa. It was a fruitful, practical and mutually satisfying relationship, in spite of Israel's limited capacity to finance technical assistance and cooperation programs. It can be resumed at any time, at least insofar as Israel is concerned.

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VII

Peace is fundamental to Israel's way of life, and Israel's determination to achieve it is permanent. Security is a vital guarantee of the viability and maintenance of peace. Together these two objectives provided the conceptual framework that produced the Camp David accords, and the march along this road must continue unabated.

A program for continued action to secure regional stability and peace must originate from the countries and governments that will have to implement the peace and live by it. Israel believes that it should include the following elements:

1. Negotiations between Israel and each of its neighbors, aimed at agreement on a just and lasting peace, laid out in formal peace treaties, that would provide for the establishment of normal diplomatic, economic and good-neighborly relations.

2. Recognition of the sovereignty and political independence of all existing states in the region, and of their right to live in peace within secure and recognized boundaries, free from threats or acts of force, including terrorist activity of any kind.

3. Autonomy for the Arab inhabitants of Judea, Samaria and the Gaza district for a five-year interim period, as set forth in the Camp David accords, and deferment of the final determination of the status of these areas until the end of this transitional period.

4. Restoration of the full independence of Lebanon, through the withdrawal of Syrian and PLO forces from Lebanese territory.

5. Negotiations, among all the states of the Middle East, aimed at declaring the region a nuclear-weapons-free zone, for the security and well-being of all its inhabitants.

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El Hassan Bin Talal

JORDAN'S QUEST FOR PEACE

After more than a third of a century of conflict, the Middle East remains the greatest threat to international peace and security. In a fitting close to 1981, and as if to signal its own recognition of the fact, and further ensure that the so-called Camp David accords can never lead to a general settlement, the Israeli government enacted legislation that for all intents and purposes annexes the Syrian Golan Heights to Israel. And a new chapter in the conflict begins.

Despite what is often said in moments of frustration, most of us here in the Middle East believe it is in America's interest, as it is in the whole world's interest, to settle the Arab-Israeli conflict. Most of us continue to believe that U.S. policy has such a settlement as one of its principal objectives for regional and global and even domestic American reasons. What we see, however, is a tendency on the part of U.S. policymakers to fall into the same traps that we, who have suffered so long with this tragic problem, also allowed to impede us earlier. These traps include the "peace by pieces" fallacy, the related "squeaky wheel" tendency, and the "peace-on-the-cheap" syndrome.

Americans are not alone in their attraction to the concept of the realization of peace gradually. Whether expressed in traditional functionalist theory or neo-functionalism, whether in terms of concrete proposals such as the Johnson plan or Secretary Kissinger's step-by-step diplomacy, "peace by pieces" is a fascinating and useful concept. But no theory, no concept, should be considered universally applicable. We in Jordan supported Secretary Kissinger's attempt to use "step-by-step" diplomacy *as a confidence-building measure* to effect a necessary disengagement of forces on the Golan and Sinai after the 1973 War. It was the extension of this piecemeal approach to the peace process as a whole that we felt was misplaced.

The Middle East problem is a complex of issues. To disaggregate the whole into its parts may help reduce one or two of those issues, but as we have seen time and time again, inevitably eliminates the possibility of addressing the core issues. It must be recalled that the several parties will have to effect numerous compromises

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to arrive at a general regional settlement. On highly charged and complex questions such as the Palestinian problem, compromises will undoubtedly have to be made on an interdependent basis. The Arab-Israeli conflict cannot be disaggregated, because the solutions will necessarily be as interdependent as the problems are. Even a cursory glance at the positions of all the parties demonstrates this interdependence.

The tendency to grease the squeaky wheel has also been characteristic of American diplomacy. If we can put peace together in pieces, then let us deal with the most threatening piece immediately. The Camp David accords, designed to remove Egypt from the Arab coalition and thereby eliminate at one time both the largest Arab army and a second front that forces Israel to divide its forces and efforts, illustrates this approach too. Without Egypt, there is no credible military threat to Israeli security—so goes the argument. After Camp David, problems in Lebanon both demonstrated the fallacy of the squeaky wheel tendency and became the next "squeaky wheel." Once again, though, the integral nature of the Middle East conflict made of Ambassador Philip Habib's laudable efforts and considerable achievements only a brief respite from the underlying tensions.

Finally, but no less futile, we have "peace on the cheap." This has been our biggest problem in the Arab world, and it now has become a significant consideration for the United States. By "peace on the cheap" we mean the attempt to bring about a settlement at no cost to oneself. No problem that has endured as long, has cost as many lives, and has engendered as much distrust, hatred, and discord as the Arab-Israeli conflict can have a cost-free solution. We in the Arab world know that now, for we have paid an inordinate price already, by anybody's accounting.

Nor will a peace be cost-free for the United States, however. The U.S. government has been afraid to face certain political realities, both domestic and Middle Eastern, because of the special nature of America's relationship with Israel and, to a lesser extent, with some Arab countries. But there is no escaping it: "biting the bullet" is the price Americans will pay, will have to pay, if we are to realize an end to this enduring tragedy.

We believe it *is* in America's interest, as we *know* it is in ours, to move toward a settlement. We hope, as Americans do, that such a resolution will eventuate, but it cannot come about without fullest consideration to the requirements and perspectives of each of the principal parties to the conflict. One of those parties—and we in Jordan wish it were otherwise, wish it could be otherwise—

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is the Hashemite Kingdom of Jordan. Over the last few years, the United States, Israel and, frankly, many Arab countries, have tended to overlook or take for granted our country. Yet, Jordan is critical to a settlement, to any settlement, of the Middle East problem.

II

Because Jordan is a small country, we are often discounted as a major factor in what is clearly the greatest threat to international security. We do not have a large population like Egypt or Syria. We do not have a position of military superiority like Israel. We do not have oil like Saudi Arabia or Iraq. So, then, why is Jordan important? Do we assert its centrality because we are Jordanian?

No, Jordan's views are important. Apart from the Sinai, which is in the process of being returned to Egypt, most of the territory Israel occupied in 1967, and therefore which is referred to in U.N. Security Council Resolution 242, was Jordanian. East Jerusalem was Jordanian. There are more Palestinians in Jordan than in any other state, most of them refugees from the wars of 1948 and 1967. Jordan and Israel have outstanding territorial conflicts dating from 1948. Although it is our position and belief that the Palestine Liberation Organization is and can only be the sole representative of the Palestinian people, still it is incontestable that large numbers of Arabs in the West Bank continue to attend closely to Jordan's actions and policies.

It is clear today that the sine qua non of any general and effective settlement of the Arab-Israeli conflict must address and resolve the Palestinian issue. It is not our purpose here to posit the requirements for such a resolution; indeed, the requirements are part of the dispute. What is clear, however, is that all parties today recognize that, to use the words of former U.S. Assistant Secretary of State Harold Saunders, "The Palestinians collectively are a political factor which must be dealt with if there is to be a peace between Israel and its neighbors." Even a cursory review of Israeli statements demonstrates conclusively that there too is a recognition of the crucial nature of the Palestinian problem. Whether in terms of "autonomy" proposals or hints that the Palestinians already have their state in Jordan, it is evident that Israeli leaders, too, have come to accept, implicitly or explicitly, the unavoidable fact that no settlement is possible without dealing with the Palestinian problem.

We Jordanians must add that, practically speaking, a settlement must also take into account our perceptions. Small as Jordan is,

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our country is politically, socially, economically, militarily and historically inseparable from the Palestinian issue. Not that we can speak in place of the Palestinians; we cannot. As His Majesty King Hussein has said recently, "Palestinians alone have the right to determine their future. There are no other options acceptable to Jordan nor is there any substitute for the Palestine Liberation Organization, the sole legitimate representative of the people of Palestine. . . ." We cannot speak in place of the Palestinians. At the same time, however, as a leading Jordanian social scientist has written, "The Jordanians and Palestinians are now one people, and no political loyalty, however strong, will separate them permanently."

Consider for a moment the following:

— Half Jordan's population is Palestinian.
— The West Bank and East Jerusalem, both captured by Israel in 1967, were part of Jordan.
— If there is large-scale Palestinian migration as a result of any regional settlement, Jordan will necessarily be greatly affected.
— Virtually all Palestinians currently resident in Jordan are Jordanian nationals.
— Israel and Jordan have vital interests in development of regional water resources in the Jordan River. Israel has already illegally diverted much of the Jordan River, but the importance of cooperation in the future cannot be overestimated. In other areas such as tourism, there is also substantial need for cooperation.
— After any settlement as before it, Jordan will share a long border with Israel. For us, development is not just an abstract goal, but a pressing need. We do not wish to continue to divert so much of Jordan's small resource base to a costly armaments program to defend our overexposed position or in order to reduce the risks along this extended border.
— Pending the creation of a Palestinian state, it is still Jordan which pays the salaries and pensions of West Bank officials; it is Jordan that bears some development costs of the territory and whose approval is necessary for such projects; it is in the Jordanian parliament that the inhabitants of the West Bank are represented; it is Jordanian law that has effect in the West Bank. This is not to deny that Israel is also involved in these activities, for that is true, albeit a clear violation of international law. Rather, we intend only to

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show how concrete and contemporary are Jordan's interests.

In point of fact and history, independent analysts and national governments alike have at least implicitly recognized Jordan's importance to a settlement. Most peace proposals provide for a central role for the kingdom, even if they misconstrue our attitudes, perceptions, and policies. The more specific the proposals, i.e., the more modalities are delineated, the clearer generally is the role allocated to Jordan. For example, both the initiative of Saudi Arabia's Crown Prince Fahd on August 8, 1981, and the Camp David agreements between Egypt and Israel—the former a set of general proposals designed to stimulate movement toward a settlement, the latter a complex and much more specific set of bilateral agreements—assume that Jordan will play a key role. Without such a role, neither approach is feasible.

Similarly, for their part, Israelis have consistently recognized the central role of Jordan in any viable settlement arrangement. Some propose to "bury the Palestinian problem in Jordan," others to transform our country into a Palestinian state, and still others to confer upon us what amounts to a policeman's role in a West Bank virtually incorporated into Israel. Mind you, these options scarcely scratch the surface of the catalog of Israeli ideas. But all see in Jordan an important actor.

The Palestinians too recognize our critical role, and the range of Palestinian ideas and proposals is perhaps broader even than that of the Israelis. Yet even those Palestinians who find our Hashemite tradition, our form of government, and our abiding faith in God distasteful, those blinded by ideology who see us as reactionaries or lackeys or worse, even they understand today how deep and indissoluble have grown the relationships between Palestinian and Jordanian.

III

We have seen that Jordan is central to any Arab-Israeli settlement, that Jordanian views must be very seriously considered if any initiative is to have a chance at success. Yet lately we in Jordan have begun to hear and read that "Jordan opposes an Arab-Israeli settlement." Let us be clear on this point: no one, no country, no people wants a settlement more than we do. Certainly, no one pays a heavier price for the continuation of the conflict than do we here in Jordan.

No, we do not oppose the resolution of this merciless dispute. To the contrary, His Majesty King Hussein has seen most of his life consumed by the search for an end to the unending violence,

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a remission from the unremitting hatred, a break in the yet-unbroken cycle of hostility and fear and distrust. Moreover, our grandfather, King Abdullah, also beloved of the Jordanian people, gave his life to this tragic conflict even as his grandsons' lives have often been threatened by it. Some in the West, thousands of miles from this sanguinary battlefield, may reach a facile conclusion that we oppose a resolution; but God knows, and we know, that this is not and could not be so.

Since the earliest days of the Arab-Israeli conflict our government, frequently opposed by our Arab brothers who were not asked to bear such a heavy burden, pursued many paths toward a settlement. In retrospect, had the other Arab countries and peoples seen the situation as clearly as we did, had they been so situated as to recognize irreversible political realities, it might have been possible to arrive at an agreement that provided the minimum needs of all parties and national self-determination for the Palestinian people. But we were all, Jordanians too, overwhelmed at the unprecedented injustice done to the Palestinians in 1948, determined to reverse this, and it was not possible to pursue more constructive paths for some years.

After the 1967 War, other Arab governments learned—and what a costly lesson—what we had known for almost two decades: Israel was to be an enduring reality of the Middle East, and the issue was not to undo the 1947 injustice to Palestinians and all Arabs but rather to constrain an Israel hungry for territorial expansion and powerful enough to obtain it. In the late 1960s and early 1970s the United Nations and the United States both made serious efforts to attain a settlement, or even to attain a workable framework for settlement. One need only read the documents concerning the Jarring mission or the exchanges associated with the Rogers plan to see how forthcoming Jordan has been. We have supported these initiatives not because we agreed with each point or idea or tendency, but because we knew that somehow a break was necessary in the stalemate.

Perhaps it is germane to say at this point that we Jordanians do not have a precise blueprint of a settlement in mind. Indeed, I believe I can speak for all the Arab countries, and probably for Israel too, in saying that the range of ideas or alternatives or minimums or maximums that is advanced in any of our countries is appallingly varied. For us, Jordanians, there are a few clear-cut requirements. Certainly, the same can be said for Egyptians, Israelis, Iraqis, Palestinians, Saudis and Syrians. We have learned through successive tragedies to keep our requirements few, to

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question them, to be sure they are truly vital. This is true also of other Arab parties. Sadly, it is not true for Israel, whose list of requirements has grown with each passing year.

— Today, Israel claims districts she never claimed before. The Golan is annexed, even though no Israeli government before today has ever even suggested the Golan was other than Syrian.
— Today, Israel claims resources she never claimed before. She uses the waters of the Litani and unlawfully takes our waters from the Yarmuk River-Jordan River confluence. She prevents us from developing these hydrological resources in our own countries by threat or use of force when necessary, all so that Israel may use all the region's water as she pleases.
— Today, Israel claims private lands she never claimed before. In the West Bank occupied by Israel since 1967, over one-third of the land (and 90 percent of the waters) has been confiscated for Jewish settlements in contravention of all international law.
— Today, Israel claims rights she never claimed before. When Iraq purchased a nuclear reactor for energy purposes, Israel, which does not even border Iraq, launched an air attack on the reactor. No government in the world except Israel arrogates such rights unto itself.
— Today, Israel claims duties she never claimed before. "Hot pursuit" has been claimed by many countries at many times to permit retaliatory or punitive excursions. Israel alone claims the right of "preemptive retaliation," which is as violative of the law as it is of logic.

And these novelties are *in addition* to earlier Israeli demands.

In spite of Israel's intransigence, which is growing apace with her appetite, the Arab governments including Jordan still seek a settlement. We have to, for let us be candid: Israel has designs on the West Bank, East Jerusalem, the Golan Heights, and southern Lebanon—whose territories are these? Arab territories. We do not want to provide a pretext for further Israeli expansion. So, yes, Jordan, and, yes, the other Arab states near Israel favor a settlement.

Yet it is true that we do not favor *any* settlement. Neither Jordan, nor Syria nor Lebanon nor Saudi Arabia nor Egypt nor Israel—none of the Middle East countries—is prepared to accept, or should be prepared to accept, "peace at any price." Again, let us all be honest. A "settlement" that did not resolve the Palestinian problem, or the question of the Golan, or Israel's or Jordan's or

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Lebanon's or Syria's rights to exist with reasonable security within a recognized territory—such an outcome would be no settlement at all, for natural forces would be at work to overturn it before it was signed. We understand Israel's needs, and believe Israel's truly vital requirements can be met, but we too have a few vital requirements. Each nation must enjoy some security as a result of a settlement, and none of us can have perfect security, for as has often been shown, one nation's perfect security is another's perfect insecurity.

It is true that agreement on what a settlement should look like is lacking both within and among Arab states, as it is lacking in fact within Israel and between Israel and other states. But a resolution to the conflict is much less likely to be found

— if Israel continues to expand what are clearly illegal settlements in the occupied territories;
— if Israel continues to decide unilaterally to annex Arab land;
— if private land is confiscated to be handed out to Israeli settlers;
— if peace agreements are made in the name of rather than with other parties;
— if Israel continues to play with internal vulnerabilities of Arab states, increasing instability and distrust;
— if Israel continues to intervene militarily in Arab states, seeing her role as a regional policeman.

Let there be no mistake. I am not holding the Arabs blameless for the depth and duration of the Arab-Israeli conflict. For too long Arab states thought the monumental injustice perpetrated against the Palestinian people in 1948 was the only reality. For too long many Arabs held that justice would be served in the end, that justice would triumph, and could see only a return to their lands by the refugees as just. After all, we knew the Palestinian Arabs, native to the land, as our Arab brothers. We did not know the Jews who had suddenly seized it. What was to happen to them? Arabs didn't care; they cared deeply, though, about the Palestinians. This was unrealistic. Today, we understand that the Palestinian problem must be dealt with *in the context* of the existence of Israel. Nevertheless, that problem *must* be resolved. We Arabs too have some requirements, but there is no question that we seek, favor, and deeply desire a resolution to this disastrous conflict.

IV

As we in Jordan see the Arab-Israeli conflict today, prospects for a settlement in the near term have dimmed substantially. At

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one time, after 1975, we were very hopeful. All the conflict states wanted a settlement, and their minimum positions were not as far apart as they are today. It looked for several years as if a peace might be possible within a decade. Moreover, there seemed to have developed a near-consensus about the general shape of a settlement. This consensus was perhaps best exemplified in *Toward Peace in the Middle East*, an influential report of a study group that met in 1975 under the auspices of The Brookings Institution in Washington, D.C.[1]

Not one of the parties to the Arab-Israeli conflict ever issued a statement about the Brookings report, and certainly we in Jordan and other Arabs had views and preferences that departed from those voiced in the report. It is clear that the same may be said of Israel. Still, the report seemed at least accurately to portray the trends of thinking *and* the hope that a settlement was possible.

Today, some five years later, another pamphlet has recently been issued, this one by the Seven Springs Center, Mt. Kisco, New York.[2] Its conclusions accurately reflect the renascence of pessimism:

1. "Hopes for a negotiated peace . . . are fading. Many Arabs and Israelis are beginning to resign themselves to prolonged confrontation and violence because they see no alternative that promises a just comprehensive peace."

2. These hopes are fading "just at a moment when acceptance of Palestinian national identity in the Arab world and beyond and growing Arab willingness to accept the Israeli state have created the best possibility of an Arab-Palestinian-Israeli negotiation since Israel was established."

3. "Palestinian nationalism and the Palestinian desire for a state must be fairly faced and dealt with in negotiation in ways consistent with the rights and security of their neighbors. . . ."

4. "A basis for negotiation between Israel and its eastern neighbors . . . [must] acknowledge but transcend what was achieved under the Camp David accords and go on to define practical steps. . . .

5. "There is widespread conviction in the Middle East that only the United States can effectively help to achieve peace, but there is deep doubt that the U.S. is prepared to play a role as a just

[1] *Toward Peace in the Middle East: Report of a Study Group*, Washington: The Brookings Institution, 1975.

[2] Joseph N. Greene, Jr., Philip M. Klutznick, Harold H. Saunders, and Merle Thorpe, Jr., *The Path to Peace: Arab-Israeli Peace and the United States*, Mount Kisco, N.Y.: Seven Springs Center, October 1981.

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mediator and to work actively for a negotiated peace."

In 1977 the late Egyptian president, Anwar Sadat, made a decision to go to Israel. His objective, as he recounted in his autobiography and speeches, was to break through the psychological barrier to peace. We in Jordan understand that this was no mean task, but a very important one, and we were concerned that President Sadat undertook his approach without consulting other Arab governments no less concerned about the "psychological barrier" and no less threatened by its impediment to peace. Nevertheless, although we reserved judgment on the historic trip, we became more concerned as Sadat's initiative began to take on a momentum of its own leading inexorably toward a separate peace between Israel and Egypt. Such an approach only encourages Israeli hawks, whetting their expansionist appetites.

It must be noted that the Israeli annexation of Arab Jerusalem and the Golan have both taken place in the aftermath of the Egyptian-Israeli peace treaty. Even Israelis never claimed historic rights to the Golan. Now that they have purported to annex the Golan Heights, can anyone doubt that the next step will be the West Bank? Never mind the concept of autonomy. Never mind the ideas of Palestinian self-rule. It is clear that Israel is intent upon adding this Arab territory to Greater Israel.

It was the inevitability of this result to the Camp David separate peace that led us to remain outside the discussions. We ask for a process of peace, not a process of annexation. Jordan and other Arab governments want a true peace, a peace of compromise, a peace that will allow Arab and Jew and Christian to live side by side in this region so important to all three faiths and the many peoples who embrace them. We seek a peace that will not force us to divert our meager resources to a constant cycle of arming to deter others and defend ourselves, a peace that will allow us to develop our land, our people, and our society both economically and spiritually, not bury the people in the land with continuing bitterness and hatred.

And what are the essentials of such a peace? Clearly, the modalities must be negotiated, but several prerequisites are manifestly central to bring about a peace that can endure. Happily, the prerequisites are few. Sadly, they are more elusive today than they were when President Sadat traveled to Jerusalem.

First, it is clear that the Palestinians must be allowed to freely exercise their national right of self-determination. The whole world, including the United States, and implicitly even Israel, has recognized that the Palestinian problem is at the core of the

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continuing Middle East tragedy. Put another way, there will never be a true peace in the region until this first requirement is met.

The second requirement is Israeli withdrawal from territories occupied in the 1967 War. Indeed, these two requirements may be viewed as related. We understand that timing can be important, that security measures (such as arms or forces limitations, observers, and the like) may be an integral part of any agreement. Issues such as security measures, juridical status, corridors of transit and communication, representation, foreign nationals, and so forth are important and are proper subjects of negotiation. Moreover, it is clear that in some cases security requirements may dictate minor modifications to specific lines previously disputed. Yet, such exchanges must result from negotiations aimed at *mutual* security and based on the two principles we have identified, not as a result of force or threat. Certainly, the Arab governments and Israel alike will be seeking means to provide for their security, including recognized borders and perhaps guarantees. Yet no one can question that the two requirements we have noted here are clearly prerequisites to *any* viable settlement.

Jordan and the other Arab countries have made clear their willingness to discuss and accept various forms of security arrangements to underwrite the peace—demilitarized zones, peacekeeping forces, and so forth. It is Israel that refuses such measures, even though Israel attacked the Arab countries in 1956 and 1967 and has occupied our land since.

The United States has important—some would say, vital—interests in the Middle East. It is also true that we have critical interests in the West, not least with the United States. Much in our tradition is shared, from our great monotheistic traditions to our prolonged and close association with Western Europe. We have resources of faith as well as of minerals; America has resources of science and technology as well as capital. The world is interdependent, and those Arabs who ignore or castigate our interdependence with the West, like their counterparts here, are out of step with more than their compatriots—they are out of step with reality itself.

Thus, when some Arabs say that American or Western interests are at risk in the continued failure to achieve a settlement, what they are really saying is that world interests, our interests as well as yours, are at stake. A future that condemns us to pervert the nature and value of our relationship into that of a gunrunner's, that forces America's friends to confront and even do violence to

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other friends, that perpetuates poverty and ignorance and narrowly limits the resources to overcome these common enemies—this is not a hopeful destiny, this is not a humane destiny, this is not an acceptable destiny.

Yes, the Middle East problem is complex, but perhaps not more so than the mysteries of human life itself, the physics of space travel, or the conquest of poliomyelitis. A United States that has shown it can meet such challenges need not, and, we hope, will not be intimidated by the problems of the Middle East. A similar commitment is what is required. After all, Arabs do not and cannot console ourselves with the thought that the problem is thousands of miles away. Of *our* commitment to attain a settlement I can give complete and categorical assurance.

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Jahangir Amuzegar

OIL WEALTH: A VERY MIXED BLESSING

For nearly a decade now, the spotlighted fortunes of some oil-exporting countries have been a focus of global interest. Raw materials exporters among the less-developed countries have dreamed of being able one day to establish a producers' association similar to the Organization of Petroleum Exporting Countries (OPEC). The industrial powers have helplessly watched their political clout and economic affluence dwindle before the kingdom of oil. The capital-short and aspiring Third World planners have kept telling themselves (and each other) that if only they had this black gold, the magical *élan vital* for their economic takeoff would be close at hand.

With the significant jump in the price of oil in 1973–74, and the projected transfer of wealth to the oil exporters, the dawn of prosperity and progress for the petroleum-rich countries was widely and uncritically presaged. OPEC's immense and growing revenues were exponentially projected not only to improve balances of external payments, but also to help finance domestic development and defense needs. The Midas touch of oil was expected to reduce domestic costs of living through larger supply of (oil-financed) imports. Massive oil receipts were widely believed not only to enlarge and extend domestic goods and services, but to make budgetary deficits fiscally extinct. Vast new opportunities for wise domestic investments were to guarantee gainful employment for the rising labor force. Rapid, all-around economic prosperity was thought to be achievable without forced saving or painful belt tightening. Material prosperity and progress, in turn, were hopefully believed to lead to more social cohesion, greater political stability, a meaningful industrial democracy, and an eventual advanced-country status.

The outcome, as even the dullest observer knows by now, has been astonishingly less rosy and far more checkered. Prosperity has been achieved at the cost of mystifying new sociopolitical tensions in some countries. In others, progress, although palpably

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evidenced, has put in motion destabilizing internal forces. Except for a dwindling few countries, initially large balance-of-payments surpluses have turned into deficits. Skyrocketing imports, while contributing to both higher standards of living and greater productive capacity, have oddly enough exacerbated domestic inflation. Budgetary gaps in most countries, while partly the result of expanded public services, have been further aggravated. The sweet dreams about sociopolitical integrity, middle-class solidarity, and genuine technological progress still remain to be fulfilled.

In short, many oil exporters now seem to think, and some even publicly admit, that the "oil bonanza" has not been a clear or unmitigated blessing for them. A disenchanted statesman among OPEC insiders goes as far as to say that history may show that the oil-exporting countries "have gained the least, or lost the most, from the discovery and development of their resources."[1]

Even if a more sympathetic evaluation of the past record, or a brighter outcome of still future events, should significantly blunt this rather pessimistic assessment, the oil exporters' manifestly enormous social, political and economic problems cannot be summarily dismissed as temporary aberrations. For most of the oil-rich countries, the tradition-shattering changes, the political uncertainties, the security risks, the economic bottlenecks, and the structural distortions are probably greater today than in the pre-1973 era. The question being asked now is not merely what the oil affluence has done *for* the petroleum exporters, but also what it has done *to* them!

II

The purpose of this brief review is to examine the experience of some major oil countries over the past several years, and to relate that experience to what (with the benefit of some hindsight) might be regarded as the inexorable dynamic of an oil-reliant economy.[2]

Some of the troublesome and unpropitious consequences that have attended development strategies in the oil-rich countries during the period from 1973 to 1980 have been so similar in form and substance as to rationally rule out mere circumstantial coincidence. When such different economies as Algeria and Venezuela, Ecuador and Saudi Arabia, Gabon and Norway, Indonesia and

[1] Ali A. Attiga, "Economic Development of Oil Producing Countries," *OPEC Bulletin*, November 1981, p. 7.

[2] The inner dynamic of an oil-rich economy discussed here connotes neither a Marxian (dialectic) nor a Rostowian (deterministic) approach to stages of development. It speaks only of the universality of certain emerging problems which were neither anticipated nor supposed to occur—but in fact did occur—within a diverse group of petroleum-exporting countries.

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Libya, Kuwait and Nigeria, Iran and Mexico end up facing nearly identical economic problems, there must be reasons other than happenstance.

These countries differ from one another in many respects—in area, size of population, natural resource endowment (including oil reserves), ethnic and religious origins, stage of economic development, standard of living, type of government, international association, and a host of other social and cultural values. In area, they range from Kuwait with only 18 thousand square kilometers to Algeria with nearly 2.4 million. In size of population, they rank from slightly over a million for Gabon to upward of 146 million for Indonesia. In volume of oil reserves, Saudi Arabia is reportedly endowed with 178 billion barrels of crude, compared to Ecuador with less than 2.5 billion. Some of the so-called low-absorbing countries in the group (e.g., Kuwait and Saudi Arabia) are dependent on oil for more than four-fifths of their government revenues, while such dependence in others (e.g., Mexico and Norway) is about one-fifth. Several countries in the group—the "high absorbers"—are endowed in varying degrees with other raw materials, a large supply of arable land, and a moderate to good industrial base (e.g., Algeria, Indonesia, Iran, Nigeria, Norway, Venezuela). While the non-oil sector accounts for as little as 28 percent in Saudi Arabia, it amounts to as much as 67 percent in Indonesia and Nigeria.

In ethnic and religious composition, some countries are Muslim Arabs; others are non-Arabs with a Muslim majority; others still are non-Arab Christians of different cultural and historical heritages. The stage of economic progress is highly advanced in Norway, and moderately forward in Mexico and Venezuela, but largely nascent in Saudi Arabia. Per capita gross national product (1979) ranges from less than $400 a year for Indonesia to nearly $11,000 for Norway, and over $17,000 for Kuwait. Political regimes vary from a conservative theocracy in Saudi Arabia to a highly advanced democracy in Norway—with a full spectrum of several party and nonparty systems in between. Some countries are members of OPEC; others are not. In short, there are probably greater heterogeneities in this group than there are in any other identifiable group of nations.

In the face of such outstanding physical diversities and inequality of natural and technological endowments, the one common binding element among these countries has been oil wealth. They all have been blessed with the shared prospect of receiving revenues from petroleum exports in a most fortuitous form which

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economists call *rent*.[3] They have also shared the aim of using the oil proceeds to achieve three targets: raise the living standards of the present generation; follow a domestic development strategy which can ensure the welfare of future generations; and reduce dependence on oil through domestic diversification and/or external investments.

III

That the receipt of massive revenues for oil-rent taxation has been a clear financial boon to the economies of major oil exporters is a matter of consensus. Whether or not this oil wealth has put the recipients on the path to sustainable growth, prosperity, and progress, however, still remains to be answered. On the positive plane, there have been a number of integrative forces leading toward economic growth and material prosperity.

First, the quadrupling of oil prices in 1973–74, and corresponding revenues accruing directly to the state treasuries, helped finance increased public spending, and gave a thunderous boost to domestic economic activities. The immediate expansion of government expenditure varied from an annual rate of 26 percent in Algeria to 120 percent in Nigeria and 155 percent in Iran. Fiscal outlays in some of these and other oil-exporting countries were two to five times larger than the corresponding annual averages during the previous five years, 1968–1973.[4] A large part of public expenditure went for investments in infrastructure, social service facilities, and productive capacity expansion. The ratio of investment to gross domestic product (GDP)—a good measure of national capital formation—more than trebled in Saudi Arabia, and doubled in Iran, Kuwait, Nigeria and Venezuela. Five years after the first oil price rise, 9 of the 13 OPEC members were devoting between one-fourth and one-half of their GDP to domestic investment—a feat scarcely matched by most of the developed or developing nations.

Growing public expenditure and investment caused, and was followed by, expansion of credit to the private sector. Annual private credit expansion in most countries in the five years after 1973 was more than twice the figure for the previous five years. Expansion of public and private demand, in turn, led to the

[3] Economic *rent* is defined as a special, and fiscally speaking unearned, reward to the least-cost producers of a commodity in temporary short supply. Thus, due to the relatively low costs of extracting a barrel of crude in some oil-rich countries compared to the expenses of oil extraction elsewhere (or the costs of alternative sources of energy), the low-cost producers are able to anticipate and reap "windfall" profits from the sale of their oil.

[4] Figures are based on data from *International Financial Statistics*, International Monetary Fund, Washington, D.C.

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growth of real GDP for all countries during most of the 1973–79 period. The average annual growth rate varied from less than 6 percent for Algeria and Venezuela to about 7.5 percent for Indonesia and Nigeria and over 11 percent for Saudi Arabia. More impressive were the rates of growth of non-oil GDP, which averaged about nine percent for all OPEC members, and as high as 13 percent for Kuwait and 15 percent for Saudi Arabia. The impact of oil was thus positive, extensive and enduring.

The second integrative force released by the oil affluence manifested itself in the government's ability to enhance public welfare through a series of measures such as expanded and improved public goods and services; increased labor employment particularly in the public sector; enlarged supply of consumer necessities (including food and fuel) at subsidized prices; higher national standards of living through larger domestic output and sizable imports; and, not least, reduced tax burdens. In some of the Arab countries in the Persian Gulf, national commitment to the creation or expansion of a state welfare system followed, and replaced, tribal and paternal attitudes and customs. In others (pre-1979 Iran in particular), the creation of a welfare state was modeled after some of the more "progressive" states of Northern Europe, and became an end in itself.

In the Gulf countries, free medical services for all ages, free education at all levels, housing and home sites at below-market prices and on easy credit terms, highly subsidized basic services and essential items, generous retirement pensions at a relatively early age, and the right to government employment at last resort became some of the outstanding manifestations of instant economic well-being. In these and other oil-exporting countries, not only was the physical landscape (particularly in large cities) changed beyond recognition, but the standard of living for a large portion of the population reached unprecedentedly high levels. Private consumption—a clear indication of improved material welfare—rose at the median annual rate of at least seven percent for all major oil-exporting countries in the period from 1970 to 1979, almost twice as fast as the 1960–70 rate, and almost twice as much as in low-income developing countries. For some countries (e.g., Saudi Arabia, Iraq and Libya) the average annual growth was around 18 percent. For Nigeria, the yearly rate of acceleration was five times faster than the decade before the oil price rise.[5]

[5] The increase in *average* per capita private consumption, however, masks the pattern of internal income redistribution among different social groups, and between individuals in the same group. Although difficult to quantify due to lack of statistical data, it is often argued that the new oil incomes have shown a great measure of maldistribution in many oil-based countries.

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Crowning the plethora of welfare measures, and higher consumption levels in most countries, there was a reduction or elimination of taxes on income, excises, imports and inheritance.

Third, there was a strong impetus to the rise of the middle class. The sheer increase in wealth, and the seemingly unstoppable dynamism of economic growth, clearly paved the way for the emergence and solidification of new middle-income strata in society—civil servants, entrepreneurs, professionals, medium-sized shopkeepers, skilled technicians and the like. The existence and growth of such a constituency is historically regarded as the main rudder of stability in the inherently destabilizing process of economic development—what Joseph Schumpeter called "creative destruction." Although this role has not been played unfailingly in all oil-exporting countries, the growing middle class has nevertheless been a progressive element in discarding some of the traditional growth-inhibiting factors in society, and in championing certain modernization causes. In particular, this class is potentially capable of blending together agreement on an identifiable national purpose, as well as the nature and scope of an internally relevant form of government.

Finally, public ownership of oil reserves in almost all major oil-exporting countries, combined with a captive export market where increasing volumes of oil could be sold, frequently at sharply higher prices, and paid for in hard currencies, gave national economic planners a rare and unconstrained opportunity to shape national economic destinies. Freed from stringent and back-breaking requirements for mobilizing domestic savings or obtaining investment capital abroad, national authorities had extensive and flexible options to put together a set of economically rational, socially unifying, and politically acceptable policies for the use of oil proceeds. The inevitably dominant role of the government in the economic development process had the potential of serving as a very stabilizing force.

IV

These beneficial aspects of the oil price rise for the major oil exporters are thus undeniable. What has been perhaps less clearly acknowledged or agreed upon are the cost factors. As time has passed, a number of unforeseen socioeconomic setbacks and reversals have emerged. These vigorous and persistent negative forces, initially affecting the economic arena, have subsequently engulfed the entire national superstructure in a chain reaction.

In the World Bank's tactfully guarded language, few of the oil-

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exporting countries have yet found "a development strategy that promises not only industrial growth, but improved rural development, expanded employment and redistribution of incomes, the provision of basic services to the poor and limitation of population growth."[6]

Foreign correspondents and press commentators have been harsher and more blunt in their assessments. The oil-exporting countries have been frequently criticized (although not always fairly or objectively) for misguided economic policies, megalomania, bureaucratic bungling, waste, inefficiency—and worse. None has come out with a clean bill of economic health. For example:

— *Algeria's* economic performance, under its own brand of socialism, has been blamed for its slow pace of industrial progress despite one of the highest investment/GDP ratios in the world; "abysmally low" productivity of its state corporations; imbalances in intersectoral priorities; and other shortcomings.[7]

— *Ecuador* has been scolded by its own President Osvaldo for the "extravagance of the 1970s," with agriculture declining, much of the new oil wealth "squandered," and forecasts of lean times ahead.[8]

— *Indonesia*—blessed with "endless resources"—is portrayed as suffering from chronic and high unemployment; immodest inflation; swollen bureaucracy; "skyrocketing" subsidies; "galloping" fuel consumption; and other "deep" economic troubles.[9]

— *Iran's* modernization under the Shah has been termed a blunder with "disastrous consequences" because of unduly activist government intervention in the economy; high wages paid to workers in nationalized and subsidized industries; crowding out of private sector investments; and the creation of a frustrated educated class.[10]

— In *Mexico*, oil has been considered responsible for bringing in massive economic imbalances—hyperinflation; a stagnation in tourism and non-oil exports; the highest balance-of-payments deficits in the country's history; one of the largest external debts for any developing country; towering interest

[6] *World Development Report, 1981*, Washington: The World Bank, 1981, p. 114.
[7] *Financial Times*, December 24, 1981; and *The Economist*, January 18, 1982.
[8] *Reuters*, January 4, 1982; and *The Wall Street Journal*, April 22, 1981.
[9] *The New York Times*, February 8, 1981; and *The Wall Street Journal*, January 20, 1982.
[10] *The Wall Street Journal*, August 25, 1981.

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rates; an explosion of consumerism; and a reduction of real purchasing power for "ordinary" Mexicans.[11]

— *Nigeria* has been faulted for an uneven pattern of sectoral growth; a large domestic resource gap despite $30 billion in annual income from oil; a snail's-pace growth in the standard of living of the masses; larger dependence on imports (even on food which was once exported); periodic food shortages; badly deteriorating public services; emphasis on the production of non-traded goods combined with heavy restrictions on external trade and exchange; a double-digit inflation rate; one of the highest annual population growths in the world; and declining non-oil exports.[12]

Even *Saudi Arabia*, which seems to have had better success with its development efforts than many others, has been subjected to rumblings about skewed income distribution between Saudi citizens and guest workers; the torrid pace of real estate speculation; clashes between concepts of modernization, industrialization and materialism on the one hand, and traditional Islamic fundamentalism on the other; concern over a permanent population of immigrant workers; eroding traditions of seniority, hospitality and thrift; and waste.[13]

Judgments on *Venezuela*—Latin America's richest country—have run along similar lines. Although the Venezuelan economy is still in better overall condition than those of other Latin American countries, there are criticisms that oil riches have failed to "trickle down" despite more than 20 years of democratic government. A nearly ninefold increase in oil incomes in six years has not produced a better life for the average Venezuelan, but led to economic dislocation and steep inflation; virtually all the grandiose schemes have fallen short of expectations; out-of-control bureaucratic expenditures have surpassed the oil income with the national debt climbing upward; the country has faced the first trade deficits in 50 years; unemployment has reached a two-digit figure; and state industrial losses have been on the rise. In the words of its own elder statesman, Perez Alfonso, nothing was better in 1980 than in 1974—not even the growth rate.[14]

[11] *The New York Times*, April 6, and December 24, 1981, and February 20, 1982; *The Wall Street Journal*, August 13, 1981, and January 28, 1982; and *The Washington Post*, January 2, 1982.

[12] *The Times* (London), March 16, 1981; *The New York Times*, July 23, 1981; and *The Christian Science Monitor*, October 8, 1981.

[13] *The New York Times*, March 1, and March 23, 1981; *The Wall Street Journal*, June 2, 1981; *The Washington Post*, January 3, 1982; and *The Economist*, February 13, 1982.

[14] *The Wall Street Journal*, February 3, 1981; *The New York Times*, August 3, 1981; and *The Washington Post*, October 7, 1981. Similar indictments have been leveled against Libya. See J.A. Allan, *Libya: The Experience of Oil*, London: Croom Helm, 1981, Ch. 10.

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And *Norway*—a country with a long tradition of democratic and efficient economic management, the advantages of a late start in the oil game, and every chance to avoid the oil trap—has not escaped the oil "curse." While Norway's plight has been dubbed the "disease of the rich," and its problems portrayed as "golden ones," the dilemma created by the oil wealth has apparently been both real and painful. By various accounts, the newfound oil wealth has priced some traditional industries out of world markets due to high wages paid to skilled workers and the effects on domestic prices. The traditional manufacturing industries have faced spiraling costs and dwindling productivity; their exports have stagnated in the face of an appreciating krone. Oil riches have been used to subsidize consumption, job creation and decaying industries. Inflation has been kept partly in check only by a long wage and price freeze and is now running at a double-digit rate. Industrial production in 1981 was only at the 1973 level. And there has been a population shift toward the Oslo region.[15]

V

Such assessments of individual countries may be regarded by their authorities as too harsh—unjustified or at best one-sided. Yet they often reflect factual information supplied by the countries themselves. Certainly the relatively hard figures alone—on inflation, budgetary gaps, external imbalances, rising dependence on oil, etc.—would be enough to call for an attempt at explanation as to what went wrong. A brief glance at the pattern of developments since 1973 in the major oil-exporting countries may offer some clues.

As already noted, the immediate and almost simultaneous result of the 1973–74 oil price rise, for the producing countries, was a sharp increase in public investment—in infrastructure, basic services, and industries with long gestation periods. There was also a substantial expansion of credit to the private sector. In consequence, investment, wage levels and consumer demand shot up, with domestic production lagging far behind, in the producers' largely underdeveloped economies with their many supply rigidities.

Thus, internal price levels began to rise steeply. The consumer index, which rose at an average annual rate of only 0.6 percent in

[15] *The Christian Science Monitor*, March 31, 1981; *The Economist*, April 18, 1981; *Financial Times*, December 4, 1981 and *The Wall Street Journal*, January 13, 1982.

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Kuwait during the 1960–70 period, accelerated at an annual rate of nearly 18 percent in 1970–79; for Nigeria, the figures were 2.6 percent versus 19 percent; for Iraq, 1.7 percent and 14 percent. In Iran, the index climbed from an average of about five percent in the 1968–73 period to more than 15 percent in 1974–79. Venezuelan price levels went up eightfold within a decade, and inflation in Mexico rose to a rate of 30 percent in 1981. Even in Norway, the inflation rate during the 1970–79 decade was twice the 1960–70 rate. Among the low-absorbing surplus group, Saudi Arabia had the highest rate—an average of 16 percent a year between 1974 and 1979, with a peak of 35 percent in 1975, compared to less than five percent a year from 1968 to 1973.

To meet rocketing demand for development, defense and consumption needs, the authorities opened wide the import gates. An extensive array of capital and consumer goods soon found their way into the activity centers of the oil-exporting lands. For example, foreign purchases during 1970–79 grew at an average annual rate of 12 percent in Venezuela, 20 percent in Nigeria, and 39 percent in Saudi Arabia. Compared to annual imports in the 1960–70 decade, the lowest growth ratio was still three times higher in the case of Venezuela, and as much as six times more for Indonesia, 13 times larger for Nigeria and 15 times bigger for Algeria.[16] While a substantial part of these imports were in the category of capital goods and defense needs, consumer items too kept their distinct share.

In theory, and under normal circumstances, such unrequited imports (i.e., paid for by extra incomes from higher export prices and more favorable terms of trade) should have served as a buffer against immoderate price hikes. In the case of the oil economies, however, the salutary effects of increased imports (and additional supplies) were substantially offset by two attending unwelcome factors. Import prices in the industrial countries were themselves on the rise due to internal inflation (partly blamed on higher fuel costs) and because of worldwide shortages of certain items.[17]

[16] All figures are based on data from *World Development Report, 1981*, Washington: The World Bank, 1981.

[17] According to data published by the International Monetary Fund, the export unit value index of the industrial countries—a rough measure of import costs to OPEC members—increased by nearly 25 percent in 1974 and 11.5 percent in 1975, with the average for the 1970–79 decade reaching 12 percent as compared to a mere 1.2 percent for 1960–69. See *International Financial Statistics*, Sup. No. 2, Washington: IMF, 1981. Some OPEC officials and neutral observers have charged that prices of certain specialty goods and services destined for OPEC were deliberately jacked up by foreign suppliers. See, for example, Walter J. Levy, "The Years that the Locust Hath Eaten," *Foreign Affairs*, Winter 1978/79, p. 299, and Robert Graham, *Iran*, New York: St. Martin's Press, 1978, p. 85.

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Moreover, a series of impervious physical and administrative bottlenecks (e.g., port congestion, overworked transport, poor distribution systems, and inadequate experience in inventory management) played havoc with the planned deliveries and utilization of imported capital and consumer goods. The results were admittedly much waste and more inflation, particularly in the urban centers.

Rapidly rising prices, in addition to triggering familiar imbalances in the economy (i.e., unintended income redistribution, unproductive speculation, commodity hoarding, capital flight and other social ills), went hand in hand with other similar distortions. First, wages and salaries in the expanding public sector (and among growing public enterprises) accelerated upward beyond modest gains in productivity. With the tacit approval if not actual encouragement of the state, private sector wages and salaries soon followed the trend. Thus, wages rose at an average of 30 percent in Iran in 1974–75 alone; for certain special categories (e.g., industrial and construction workers) the 1975–76 wage index went up as much as 48 percent. In the mid-1970s, labor remuneration rose at an average annual rate of nearly 19 percent in Venezuela; in Mexico, urban minimum wages went up at an average annual rate of 27 percent—exceeding both productivity gains and cost-of-living increases. In Kuwait, wages rose by an average of about 25 percent in the period from 1973 to 1979; in Saudi Arabia weekly pay rose at an annual average rate of 15 percent in the 1976–80 period and as high as 35 percent in 1977. In all other oil exporters the heightened demand for housing, construction projects, and non-tradable goods and services was reflected in a drastic rise in local wages (particularly for skilled and semiskilled groups)—with the private sector having to follow high public sector rates. In some countries around the Persian Gulf, manpower shortages and spiraling wage hikes were somewhat eased through immigration. In others, higher wages added to rising production costs.

At the same time, prices of imported goods and those of the nationalized and "modern" industrial enterprises were kept down by increasing subsidies out of the national budget.[18] In Indonesia, subsidies grew 15 times larger in six years. In the six surplus

[18] The Saudi government reportedly pays farmers more than three times the world price for wheat, while subsidizing half the costs of agricultural machinery and fertilizers, in addition to interest-free loans and free gas for electric generators. In the industrial sector, incentives include free land leases, no-interest credit up to 15 years, tax holidays and custom-free imports. See *The New York Times*, January 24, 1982, and *The Economist*, February 6, 1982.

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countries (i.e., Iraq, Kuwait, Libya, Qatar, Saudi Arabia and the United Arab Emirates), food, fuel, water, electricity and other basic necessities were heavily subsidized. Notably cheap fuel prices in a number of oil exporters (e.g., Indonesia, Ecuador) encouraged domestic consumption to the point of jeopardizing the growth and indeed the continuation of petroleum exports beyond 1990.[19] In others, the subsidized new industries became increasingly inward-oriented and unable to compete in world markets.

Furthermore, welfare benefits and entitlements were increased and broadened generously—with scant regard to their snowballing effects. Stark warnings came later. The relative stability of nominal oil prices after 1975—in the face of worldwide inflation—coupled with the paucity of non-oil taxes and climbing public expenditures in a majority of oil-exporting countries, pushed budgetary deficits to historically high levels in some countries (e.g., Nigeria) and to an uncomfortable magnitude from time to time in others (e.g., Algeria, Indonesia, Iran, Mexico, Norway and Venezuela). Even such low-absorbing countries as Libya and Saudi Arabia experienced budgetary deficits in some years between 1974 and 1979. And with the exception of six relatively small countries (e.g., Iraq, Kuwait, Libya, Qatar, Saudi Arabia and the United Arab Emirates) all other major oil-exporting countries ran into periodic or protracted balance-of-payments deficits during the 1973–80 period.

Still further, the exchange rate was allowed to rise effectively and to remain overvalued. By keeping prices of foreign goods and services relatively cheap in local currencies, the authorities sometimes managed to keep domestic inflation temporarily or partially suppressed. But relatively high and stubborn inflation throughout the 1970s caused the effective exchange rate (i.e., the nomimal rate adjusted for local rates of inflation compared to those of trading partners) to appreciate by various degrees among some oil exporters. The 1973–78 effective appreciation was about 50 percent for Nigeria, 70 percent for Indonesia, 40 percent for Gabon and 25 percent for Ecuador.

In other countries (e.g., Saudi Arabia) the exchange rate was officially adjusted upward periodically against the U.S. dollar. Only Indonesia and Mexico reduced their exchange rates to improve competitive positions. In other countries, the rate was

[19] Interestingly enough, subsidized domestic prices of petroleum products substantially below world prices have not only been a major drain on national budgets; they have been contrary to the very advice given by OPEC leaders to the Western industrial countries in favor of energy conservation.

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linked to a weighted average of currencies of major trading partners. To the extent, however, that local inflation generally surpassed the prevailing rates abroad, the nominal exchange rates adversely affected non-oil exports. Instead of keeping pace or increasing relative to oil exports, the percentage of these non-fuel items in total merchandise exports dropped after 1973 in almost all oil-exporting nations.

Finally, troubles became overpowering when domestic infrastructure facilities (e.g., port capacity, warehousing space, urban dwellings, transport, power supplies, building materials, etc.) gave way, as they did in almost all the nonindustrialized producing countries. Racked by spiraling costs, and ravaged by frequent breakdowns of incapacitated facilities, many governments were faced with a situation that called for immediate remedies. The authorities' reaction to the urgent physical and financial needs of the overheated economy was reflected in their resort to price controls, anti-profiteering campaigns, forced sale of privately "hoarded" merchandise, customs auctions, importation of foreign labor. foreign borrowing, contracting out of many public projects to foreign firms on a "turn-key" basis, etc. With the exception of a few small Persian Gulf states which followed liberal trade and exchange policies, most other major oil exporters were forced to exercise routine controls on prices and incomes. Most also kept domestic interest rates on deposits and loans at lower levels than the prevailing world market rates—for different reasons, but mostly in the hope of keeping inflation down. In certain "open" economies like Iran, Kuwait, Mexico and Venezuela, these interest differentials gave rise to considerable flights of capital.

VI

The cost of economic progress in the major oil-exporting countries has thus been neither small in magnitude nor limited in scope. World Bank data show that despite the average annual growth rates of domestic investment in many oil economies during the 1970–79 decade running more than three times faster than similar rates in the period from 1960 to 1970, these countries managed to increase their overall annual GDP growth in the 1970s by no more than one-third over their respective rates in the 1960s.[20] Almost all countries were also faced with a decline in

[20] Part of the surprisingly high capital-output ratios was due to the concentration of public investments on low-yielding infrastructures or long-gestating heavy industries. But there were also other reasons.

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agricultural activity, and an increased dependence on petroleum as a source of sustained livelihood and continued growth. For some countries, growing budgetary deficits, rising external debt, and internal unemployment were additional costs.

The question is why? Why did things not work out as expected? Why have so many different countries been so uniformly trapped not only by severe economic problems but by internal political ferment, social tension, identity crisis, and an overall malaise? Has there been coincidental bad luck? Or have there been identifiable causative forces at work?

The answers are frustratingly elusive. Only certain corroborating clues may perhaps offer plausible explanations for the oil countries' *embarras de richesse*—though still at the risk of some oversimplification.[21] At the top of the list, one may place what the French call a "lyrical illusion," i.e., an exhilarating state of near euphoria where state planners and the rank and file alike were disingenuously confident that oil money would solve all problems. Having considered the shortage of foreign exchange in much of the postwar period as the most critical single impediment to domestic economic development, national authorities saw their sudden affluence as the key to meeting all their needs. The preamble to Iran's Fifth Plan before the 1979 revolution epitomizes this supreme confidence. Based on the assumption that foreign exchange was no longer a constraint, the new plan was regarded as the "spearhead of one of the country's most brilliant and significant transformations [toward] the period of Great Civilization" when the country was to become the world's fifth largest industrial power.

Similarly ambitious outlooks and aspirations prevailed in Algeria, Ecuador, Mexico, Nigeria, Venezuela and others. Planned expenditures in almost all major oil exporters were geared to projected oil revenues rather than domestic absorptive capacity. Making the task of planning and implementation many times more difficult was the paucity of basic data, the dearth of experienced planners, and the acute shortage of skilled work force and bureaucratic superstructure. Blind confidence masked stark realities.

Second, where development and current outlays were not totally

[21] In a broad sense, the experiences of the major oil exporters have not been too different from those of other countries undergoing commodity booms in the past. In fact, some historical parallels can be found with discovery and development of precious metals in North and South America. What makes the case of oil somewhat *sui generis* is the prevalence of *similar* problems in *dissimilar* countries at the *same* time, and the seeming disregard of the obvious and experienced risks.

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out of line with a country's potential absorptive capacity, the subsequent behavior of oil exports and prices made a hash out of confident expectations. Many post-1974 plans in the oil countries were based on the assumption of a steady rise in the volume and price of oil exports. However, the small nominal increase (and an actual real decline) in crude prices between 1975 and 1979, followed by a gradual decline in world demand for oil (and particularly OPEC oil) in 1980–82 drastically cut crude exports in some countries. Weakening spot market prices led to a series of official price cuts by many exporters (and in the case of Iran to even below the benchmark price). Plummeting oil revenues, in turn, delivered devastating blows to the launching or completion of certain major projects.[22] As a result, the resource balance in many countries turned negative, and resort was made to borrowing from international capital markets. Severe contractionary policies were also introduced in nearly all high-absorbing countries in the late 1970s. In the process of this deflationary adjustment, private investment was seriously "crowded out" by public sector outlays.

Third, a basic inhibitive element seems to have been the inherent character of oil extraction and export. Unlike other dominant single industries (e.g., automobiles, housing, shipbuilding, or arms) which draw their inputs of land, labor and capital from a wide variety of other smaller industries, and in turn stimulate and evoke a wider range of productive and entrepreneurial activities, oil offers few such backward and forward linkages. In spite of major progress made in expanding domestic use of crude in meeting local demand for oil derivatives and for export, petroleum still remains a highly insulated and technologically advanced industry with little direct spillover into other economic sectors. Forward linkage projects such as petrochemicals, aluminum and steel, which are being developed now as an integral part of development strategies, are deliberately created to fill the void.

Fourth, a highly crucial seed of subsequent troubles in the less-developed members of the group appears to have been an uncritical identification of the "development process" with industrialization, and the equation of industrialization with modernization. From Algeria to Venezuela and from Gabon to Saudi Arabia, highest priority in public investment (or subsidies to the private sector) was given to a technologically advanced group of industrial schemes.

[22] In Nigeria, for example, a mammoth $14-billion liquefied natural gas project had to be postponed. In Iran, all the six giant projects which constituted the core of the Sixth Plan fell by the wayside after the revolution. Retrenchments occurred also in Venezuela, Mexico and even Kuwait. See *The New York Times*, February 20 and 22, 1982.

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Advanced Western countries' politico-economic clout was generally attributed to their military/industrial might. Excessive reliance was also placed on the once fashionable theory, propounded in the 1950s by Albert Hirschman in particular, that deliberate tilting of the economy in favor of strategically selected industries is the best way to get an underdeveloped country off dead center.[23] State planners in nearly all countries accordingly opted for heavy industrialization as a major development priority. The belief was that a big industrial push would stimulate a cluster of other activities whose benefits would soon "trickle down" to all lower social strata. For the oil-producing countries, however, the result in the 1970s was a much-regretted neglect of agriculture and rural development—with many dire consequences. The depopulation of rural areas not only reduced farm output, but contributed to the catastrophic overcrowding of urban centers and the explosive onset of social tensions.

Closely related to the preference for industrialization over agriculture, and protected import substitution over competitive export promotion, has been the choice of capital-intensive industries as the focus of public investment. Almost all countries bent on industrialization (read: modernization, progress) have preferred projects such as direct-conversion steel, petrochemicals, heavy machine tools, metallurgicals and fully mechanized state farming. This phenomenon, dubbed Pharaohism by the critics, has meant the introduction of advanced technology in countries with little or no tradition in such sophisticated undertakings. In Saudi Arabia and a few smaller and sparsely populated Gulf states, this strategy may still prove to be appropriate, but the labor-saving character of such projects makes them more questionable in richly populated countries like Iran, Nigeria and Mexico.

Even in countries with relatively small populations per square kilometer of land (e.g., Algeria, Saudi Arabia, Venezuela), the tightly "encapsulated" and imported technology has imposed heavy burdens on the meager stock of skilled workers, technicians, engineers, teachers and managers. As the skilled labor shortage became more acute, poaching and pirating among various public and private enterprises tended to increase.[24] National planners have tried to justify their strategy by arguing that modern equip-

[23] A. O. Hirschman, *The Strategy of Economic Development*, New Haven: Yale University Press, 1958, p. 36.

[24] In Iran, with less than one-third of the per capita income of some European countries in 1978, some run-of-the-mill engineers, bankers and bilingual secretaries received several times higher salaries than their Western counterparts.

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ment is both more cost-effective and a better source of training modern skilled workers. But in practice, things have turned out differently: equipment has often not been properly used or maintained, and local unskilled labor, instead of being properly trained, has often been replaced by foreigners.

Fifth, many governments, inadvertently or by design, have assumed an increasingly dominant role in the economy without adequate administrative and bureaucratic capabilities. There has been an inherent ambiguity in their pursuit of the double-barreled aim of nationalization of a large sector of the economy and, at the same time, creation of a welfare state. As rural migration quickened, a growing number of unemployed (and unemployable) migrant workers from farm areas became wards of the state—helping to increase overstaffing of public enterprises and inefficiency in public services. A staggering chunk of the public budget was subsequently diverted from productive investment to the support of a European-style welfare system without the benefits of *prior* industrialization and adequate government machinery. Under irresistible political pressures from a largely poor, frustrated, and impatient population demanding to receive its share of the oil revenues for a better life now, most government leaders simply could not afford to sit on the oil money and avoid spending it in one way or another.

Sixth, there has been a tendency toward a "maximalist" approach to domestic investment and public spending. Rooted in Hirschman's contestable "big push" theory, state planners have tried to hitch their economic wagons to unreachable stars. The justification has been disarmingly simple: without a broad vision, lofty goals and hard-to-reach targets, the resources and energies of a nation cannot be optimally mobilized.[25] The outcome of this bold assertive philosophy, however, has invariably been a hyperboom. For a number of political, psychological and security reasons, most governments—particularly in the high-absorbing countries—seem to have opted for spending almost all of their new wealth at home instead of placing it abroad for slower and more orderly domestic investment at a later date.[26] An impatience with the pace of progress has led national planners to go for highest-growth scenarios about which they themselves must have harbored some doubts.

[25] Western observers point to Saudi Arabia's $250-billion Third Plan (1980–85), compared to its $18-billion First Plan (1971–75); Iran's near doubling of its Fifth Plan (1973–78) from $36 to $69 billion is another frequently cited example. See "Filling a Void," *The Economist*, February 13, 1982.

[26] One clear exception has been Kuwait, which with the benefit of an early start and severe physical limitations for internal development, has chosen consistently to invest a large part of its oil revenues abroad.

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Under the pressures of unmeetable demands by the public and private sectors, the fragile domestic productive structure thus became intolerably strained. And when the warning signals flashed, the authorities' response was inescapably political, and their measures often expedient. Many hurried and inadequately planned public undertakings, lacking experienced managers and skilled workers (and overburdened with politically vocal but economically underproductive labor) are now judged by outside observers to be much costlier than anticipated. They have surely accomplished much less than expected, or than could have been achieved in a calmer and more resilient atmosphere.

Seventh, in order to combat raging inflation, the authorities have somewhat wishfully resorted to the sort of "over-the-counter" remedies which helped relieve the symptoms temporarily, but like all such medication, made the removal of underlying causes perhaps more difficult. The benign policy of reducing high costs of living for the poorer strata in society (and spreading oil benefits to the widest possible segment of the population) has been implemented through public subsidies to high-cost domestic producers and inflation-ridden imports. The threefold objectives of these subsidies, i.e., helping low-income consumers, reducing costs of inputs in other economic activities, and protecting the new "infant" industries against foreign competition, were both popular and plausible. But these galloping outlays—easily financed while government's oil revenues were on the rise in 1974–75—turned into major burdens on the budget in the subsequent slack periods, 1976–78 and 1981–82.

Meanwhile, the control of inflation was undercut by the decision to allow wages and salaries to rise for public servants and urban workers—a policy designed to mitigate inflationary hardships, secure industrial peace and insure political loyalty. These increases necessarily spread to small-scale industries, non-oil exports and import-substituting activities, so that increased overall inflation canceled out the possible benefits of official or de facto currency devaluations in some countries.

Moreover, higher wages in the private sector were no help in reducing unemployment; in some high-absorbing countries (e.g., Indonesia, Mexico) the jobless reportedly remained perhaps as high as 30 percent of the labor force. Resort to a cornucopia of "quick fixes," like price controls, credit and interest-rate ceilings, import licensing, private investment regulations, etc., was psychologically effective for a brief period, but proved both socially divisive and economically counterproductive at a later stage in many countries.

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Eighth, incontestably the massive influx of foreign exchange revenue from oil caused domestic currencies to appreciate officially, or in real terms, through domestic inflation. Oil-inflated and overvalued exchange rates were often allowed to prevail mainly in the hope of reducing inflation through cheapening imports.[27] As a result, exporters of traditional items found themselves at a serious competitive disadvantage both in world markets, and in meeting prices of substitute imports. In consequence, almost all major countries saw the shares of agriculture and manufacturing (so-called directly productive sectors, which are at the mercy of foreign competition) shift downward in favor of government bureaucracy, domestic and external trade, and "luxury" construction (which are non-traded goods and thus immune to exchange rate changes). Despite the earnest pledge to reduce dependence on oil as a fountainhead of economic life and the locomotive of domestic development, the share of this sector in GDP increased in almost all countries.

Finally, there is the divisive social impact of the new "oil psychology"—variously termed petromania, quick-money fever, or the catch-as-catch-can syndrome—that emerged in nearly all countries. On the one hand, those groups seized by what was called the "lyrical illusion" have been both eager for progress and impatient with its slow pace. On the other hand, in countries where deeply ingrained patterns of behavior had not been altered for centuries, there has been intense resistance to change by other groups. Whereas the reformist middle class and other groups caught up in the oil boom tend to identify cultural traditions with poverty, suffering, inferiority and weakness, traditionalists (or religious fundamentalists) consider these same traditions as the source of inner strength and prideful identity. Hence, petromania has triggered what many observers see as an interminable struggle between privileged, "Westernized" progressive elites and cultural traditionalists.

In its most controversial aspect, the new "oil psychology" is portrayed (and deplored) as the materialization of traditional ethos; a ruthless search for wealth driven by frantic lusting after money status; and above all a decline in the cardinal virtues of self-reliance, both national and personal. And the sense of conflict is fed by the contrast between genuine entrepreneurs and less genteel manipulators, the rise of a rentier society, welfare hand-

[27] Mexico's second official devaluation of the peso by 30 percent in 1982, on top of the 40 percent in 1976, has often been cited as a prime example. See *The New York Times*, February 19 and 22, 1982; and *The Wall Street Journal*, February 22, 1982.

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outs, and an ever-widening gap in income between rural and urban populations.[28]

These social divisions—impossible to quantify—have not only played a part in the economic problems of most of the oil-exporting countries; they may in the end become (as is already the case in Iran) the basis of political convulsions.

VII

From an economic standpoint alone, the near uniformity of problems faced by the major oil-exporting countries in the aftermath of their new affluence seems to point to a dynamic momentum which has clearly defied political, cultural and geographic differences. As each bit of progress has opened up a new pandora's box of fresh problems, the oil-exporting authorities have met similar challenges with like responses. The new oil wealth seems to have imposed its own model on all oil exporters. Given an unavoidable political decision to use the oil money for further development and diversification of the economy, and in the absence of a strictly coordinated planning process, development expenditures proposed by various public agencies have invariably exceeded anticipated revenues. Even with "brutal" pruning of the budgetary requests, national authorities in most countries have found no alternative but to expand (sometimes reluctantly) oil production and exports to meet the "irreducible" minimum budgets. Larger exports at higher prices, in turn, have whetted the agencies' appetite for increased appropriations. And the circles have turned vicious.

The bewildering similarity of the problems faced by oil exporters of different stripes and status, and the uncommon uniformity of responses and reactions shown to these problems, lead one to believe that an oil-generated economy must possess an inner dynamic of its own. This rather mystical belief is reinforced when one notes that both the integrative and the negative forces discussed above seem to have been at work not only in the countries that were suddenly and unexpectedly faced with more money than they knew what to do with (i.e., most OPEC members), but also in such countries as Mexico,[29] Norway and even the United

[28] See A. A. Attiga, "How Oil Revenues Can Destroy a Country," *Petroleum Intelligence Weekly*, Special Supplement, October 19, 1981; and Peter Kilby, "What Oil Wealth Did to Nigeria," *The Wall Street Journal*, November 25, 1981.

[29] As a seasoned observer reports, when Mexico discovered large new oil reserves in the late 1970s, it vowed to avoid the "mistakes" of other energy exporters, i.e., "disastrous political results" in Iran, Venezuela's reliance on food imports, Nigeria's port congestion, and Saudi Arabia's enterprises overrun by foreign technicians. And yet, "almost fatefully," Mexico also became addicted to oil. See *The New York Times*, February 20, 1982.

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Kingdom[30] which were latecomers to the scene, evidently well aware of certain risks, and publicly committed to avoiding the pitfalls common to other oil exporters.

Thus, all of them—developing or developed, large or small, rich or poor, northern or southern—seem to have encountered the inherent collision between the requirements of economic rationality (i.e., productive investments dictated by cost-benefit calculations) and the exigencies of social justice (i.e., a welfare state mandated by the availability of easy money). In trying to combine these conflicting objectives, some equity has been achieved at the expense of efficiency: the expansion of the welfare constituency through larger segments of society has unavoidably made fewer resources available for genuine economic growth. Some efficiency also has been obtained at the sacrifice of old economic ways and mainstays: traditional values, non-oil exports and self-sufficiency have been threatened. All in all, the "oil bonanza" has not meant impeccable bliss for any.

Are there lessons for the future in what has happened? With oil prices and production levels now dropping rapidly, in what some see as a continuing trend, what will happen to the economies and political stability of the oil-producing countries, especially those for which oil is the centerpiece of their economic structures?

Firm predictions are impossible. But three fundamental points are worth stressing.

To begin with, in almost all oil countries—even those with a thriving private sector—people's dependence on the state, as a nucleus of authority, assistance and support, has palpably increased. The state has become not only the focus of power but the initiator, promoter and monitor of all major economic activities—without being adequately prepared to assume these responsibilities. A major restructuring and reinforcing of government capacity is essential.

Second, governments themselves have become alarmingly dependent on oil revenues not only for long-term national economic development but for current consumption. Increased national commitment to elaborate and expensive development plans has increasingly bound the leadership to the maintenance, if not expansion, of oil production and export—even in the face of declining world demand. And a majority of increasingly articulate

[30] A recent commentary on the British economic situation finds it "hard to believe" that the British people have benefited from North Sea oil—in view of current ouptut, investment and living standards which are at their lowest in years, with record unemployment and interest rates, and double-digit inflation. It concludes that the government has thus far "frittered away" most of the benefits of North Sea oil, and shows every sign of continuing to do so. See *The Times* (London), December 14, 1981, p. 15.

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urban populations has become addicted to heightened consumerism. In most cases, national priorities must now be reordered.

Third, and most crucially, oil revenues have themselves become dependent, to a growing degree, on factors outside the control of the governments of the producing countries. With demand now below available supply at the official price, the key determinants are the pace of economic activity and growth in the outside world, oil conservation and increased efficiency in its use, and the supply and price of alternative sources of energy. Domestic monetary, fiscal and exchange policies have always been influenced by developments abroad, particularly for oil countries with substantial foreign assets; now these policies have been, to a troublesome extent, placed at the mercy of extraterritorial decisions, actions and trends.

Thus, governments that have come to be held responsible for the national destiny now face new and unforeseen difficulties. Even in the days of boom, their troubles were legion. How they cope with a continuing situation of stagnation, or worse, in the world oil market is an issue in which not only the oil producers but their major customers have an enormous stake.

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Sol C. Chaikin

TRADE, INVESTMENT AND DEINDUSTRIALIZATION: MYTH AND REALITY

The American labor movement has basically concentrated on domestic issues—with the notable exception of its vigorous efforts to further the cause of human rights, free trade unionism and political democracy throughout the world. This focus on the United States has been the result of both the sheer size of the American economy and work force and the specific circumstances which gave rise to the rapid growth of the labor movement in the 1930s.

The renaissance of organized labor in this country during the depression years was based mainly in the manufacturing sector. In those days, international trade accounted for a minute part of the nation's total output of goods and services. It was, therefore, manifest that the problems of the national economy that culminated in the Great Depression resulted from deficiencies in domestic policy. Gradual economic revitalization in the New Deal years reinforced the views of labor leaders that the viability of the American economy was inextricably and almost exclusively linked with the domestic scene.

In the early 1960s, workers in a number of labor-intensive industries, particularly the apparel industry, began to experience economic distress. For some, the problem was outright loss of jobs; for the majority, earnings failed to keep pace with average manufacturing wages. That this could occur during what was to become the longest period of sustained economic growth in American history was cause for consternation. What was happening compelled those affected to look beyond our borders.

It rapidly became obvious that the dilemma was due to market dislocations in the wake of a growing tide of imports. Unions might have been expected to respond by calling for a cessation of

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all labor-intensive imports. The International Ladies' Garment Workers' Union, however, did not follow that path. Unlike most unions in the United States, the ILGWU was founded by immigrants who arrived in this country with a firm commitment to the international solidarity of working people. The ILGWU leadership needed no lessons in the importance of international economic cooperation to maintain world peace. It rejected and continues to oppose a philosophy of extreme protectionism.

The threat to American jobs and living standards that had been limited to a few industries has now multiplied to the point where it affects workers—and many employers—in almost every industry. The issue is no longer the viability of entrepreneurial manufacturing. The specter of deindustrialization is not only apparent, but has continued to grow at a geometric pace.

In the course of more than 40 years as an officer of the ILGWU, I have been closely connected with the industrial scene. Especially since becoming the union's president in 1975, I have often discussed the loss of American manufacturing with my corporate counterparts. I have heard the concern of other union leaders in the highest councils of the labor movement and that of workers on the shop floor, along with the thinking of my opposite numbers in the developed and developing nations. Insights have also been gained in exchanges with government leaders in the United States and abroad and through participation in negotiations affecting both bilateral and multilateral trade.

The experiences of the apparel industry in particular and of the nation's manufacturing base in general have compelled me to think through more thoroughly the current implications of postwar national economic policy. I would like to share these explorations and some of the resulting conclusions.

II

By the end of the Second World War, U.S. trade policy had shifted radically from the autarky of the 1930s to an ideology of "free trade." International cooperation created by the wartime alliance and the emergence of the United States as the dominant Western power were catalysts in this change. In the immediate postwar years, the output of the United States represented an unprecedented share of global industrial production. By 1948, three years after the end of the war, American output still represented more than half of the world's industrial product. America's newfound love affair with free trade was, consequently, solidly based upon a pragmatic assessment of domestic potential.

Prosecution of the war had brought important changes in the

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American economy. Fabrication of war material and the growth of the armed forces had reduced depression-related unemployment to a point where the dream of a full employment economy seemed possible. Capital outlays, encouraged by military needs, and research and development, both of which were underwritten by the government, had helped to modernize industry, yielding impressive gains in output and productivity.

Military expenditures declined sharply with the end of the war and millions of discharged servicemen reentered the domestic work force. The likelihood of a postwar slump was advanced by most economists, who foresaw a severe downturn once pent-up demand for consumer goods, created during the war years, was satisfied. The most effective way to avoid that prospect was to ensure new outlets for American industrial capacity.

If only in purely economic terms, the postwar U.S. commitment to a greater degree of unrestricted trade made a great deal of sense. Given the destruction of industrial plant in much of Europe and Japan and the time period they needed to rebuild, extraordinary advantages of the United States in capacity, technology and productivity permitted the economy to prosper. While Europe and Japan were rebuilding their industrial bases, American manufacturers enjoyed an unchallenged share of world markets which helped to facilitate rapid conversion of the economy to peacetime production and avert an economic downturn.

Postwar trade policy also enhanced opportunities to attain strategic political goals. The United States sought through the Marshall Plan to assist in the reconstruction of devastated European economies as an integral part of an effort to create and strengthen stable democracies. The Marshall Plan contributed significantly to Europe's recovery as did investment by American corporations, encouraged by government policy.

While the U.S. economy initially benefited from this policy, there were mid- and long-term costs associated with these efforts. In time, financial assistance, investment, shared industrial know-how and the rebirth of war-devastated economies began to diminish the advantage American manufacturing enjoyed in the period immediately following World War II.

As American investment in Europe continued to grow, the relative availability of capital for domestic investment declined. Earnings of European subsidiaries of U. S. corporations were not fully repatriated, further increasing the gap between potential and actual domestic capital formation. While overseas investments

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by U. S. corporations enhanced the profitability and competitiveness of these corporations, they restricted growth possibilities in the domestic economy.

The implicit restriction of domestic growth and the conscious sharing of the global market had aims which could not be calculated in purely economic terms. They were linked with efforts to avoid social unrest in Western Europe and to the establishment of a strong Western Alliance. The absence during the past 37 years of global military conflict, and especially of regional warfare in Europe, has been one outcome of U.S. policy. Its value is incalculable.

American policy toward postwar Japan had similar ramifications. Emergence of a stable, friendly and economically viable order in Japan was, as in Western Europe, a vital American concern. Japan, and Asia as a whole, however, did not readily offer as significant a market in the immediate postwar years as did Europe. Nonetheless, for similar strategic reasons the United States provided aid and shared technology. The Korean War contributed to the rebirth and growth of basic Japanese industry as Japan became an important supply base for American and U.N. forces. Further substantial gains to the Japanese economy took place later, during the Vietnam War. The United States also provided an additional critical inducement to Japanese industries by establishing and helping to maintain until 1971 a foreign exchange rate favorable to the Japanese, even as that country pursued a highly protectionist trade policy.

America's postwar export predominance could not continue indefinitely, especially after Germany, France and Japan re-created and further developed their industries with the most advanced available technology. Throughout the 1950s and into the early 1960s, aided by the absence of large-scale military expenditures, both Japan and the principal countries of Western Europe enlarged plant and equipment and increased consumer output, thereby creating near full-employment economies and raising living standards. As their industrial plants grew, these nations devoted greater attention to increasing exports. American multinationals captured a share of the domestic and export markets in Western Europe and, to a far lesser extent, in Japan. Initially, the domestic economy in the United States was not as severely affected as had been anticipated earlier. The unbroken domestic growth of the 1960s made the markets of Western Europe and Japan relatively less important.

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III

As a result of U. S. government policies and private encouragement, as well as the need to pay for raw material imports used in its growing industrial machine, Japan increasingly pursued a model of export-oriented development in a number of key industries. In this, of course, Japan was not alone. If Japan were an isolated case, perhaps trade policy would not bear so heavily on our current economic problems. But Japan is not an isolated case. Rather than acknowledging that there are limits to the American economy's ability to absorb imported goods, U. S. policy has been one of encouraging developed and developing nations to increase their exports to this country.

Continuation of a policy of relatively unrestricted trade without incurring disastrous internal results must be viewed both in the context of the domestic economic circumstance and, because the actions of the United States have international implications, in terms of foreign policy goals.

The consequences of this policy for domestic manufacturing have changed and intensified in the course of the last two decades. Yet, despite the growing importance of the problem, discussion of import-penetrated industries was, as recently as ten years ago, extremely narrow in scope and short in duration. The sectors concerned—primarily labor-intensive industries—were few, and, to most observers, imports did not appear to be a general threat to U.S. manufactures. Industries experiencing difficulty competing with foreign goods were viewed merely as isolated cases.

In the 1970s the nation came to learn that excessive import penetration was not peculiar to such labor-intensive industries as apparel, textiles or home electronics. The experience in these sectors was merely a preview of similar dislocations which have now affected almost every facet of American manufacturing.

Many nostrums have been suggested over the last 20 years. When the members of the ILGWU were first confronted with the rising tide of apparel imports from developing countries, we were advised that the solution in our labor-intensive industry was simple. Domestic industry, it was said, should become more competitive by improving worker productivity.

Even in the less-developed countries, however, apparel is manufactured with essentially the same state-of-the-art technology employed in the advanced nations. Frequently, manufacture abroad has been implanted by American corporations. Designs and production techniques created in the United States and supported by

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American merchandising skills are used in the developing countries. Capital, technology and managerial know-how have been internationalized, leaving no opportunity for domestic apparel manufacturers to obtain a meaningful edge in productivity. Consequently, wages represent the only area in which the domestic industry can compete in an open market with imports from the developing world.

By the standards of other manufacturing in the United States, wages in the domestic apparel industry are not high. Across the country, a sewing machine operator earns an average of $5.00 to $5.50 per hour. With benefits, this comes to total compensation of roughly $6.75 per hour. But workers in the major exporting countries earn a small fraction of this amount—less than $1.00 per hour in Hong Kong, less than 40 cents per hour in Taiwan, Korea or Singapore, about 20 cents per hour in India and even less in Sri Lanka and the People's Republic of China. For garment workers in the United States to compete with such wage levels, even taking into account shipping costs and applicable tariffs, would mean that they would have to accept total compensation of hardly more than $1.00 per hour.

When we brought this to the attention of the policymakers, they responded that additional constraints on apparel imports were still unwarranted. If the domestic apparel industry could not compete on a global basis, so be it. The displaced workers, they contended, would find other work in such industries as shoe production, novelties or plastics, where the skills were highly compatible. Yet these labor-intensive industries were afflicted with the same malady—they too were losing jobs in the wake of growing imports from low-wage areas.

Policymakers and corporate spokesmen then suggested that the loss of labor-intensive manufacturing jobs should not be cause for alarm. People displaced by imports, they maintained, could be retrained for better jobs in capital-intensive industries—autos, steel or, better yet, the technology-intensive growth industries. Such a stratagem, however, had first to cope with limitations on upward or even horizontal job mobility.

IV

Even under the best of economic circumstances, occupational adaptability is far from perfect. As the shortcomings of the War on Poverty of the late 1960s clearly demonstrated, the American labor force has a broad spectrum of skills. High levels of employment and minimal unemployment, therefore, require a full spec-

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trum of job opportunities—from the least skilled to the most advanced. Fitting people into job slots is a complex and frequently disheartening exercise, especially when an industry or a substantial fraction of it is phased out of existence. Limitations on occupational adaptability, which some economists slough off as "structural unemployment" (as though there are no human bodies behind that bland concept), are compounded by constraints on mobility created by family ties, inadequate financial resources, educational limitations, lack of access to information regarding available jobs, or de facto sex or racial discrimination.

In periods of economic stagnation or retrogression, it is difficult, if not impossible, to upgrade workers whose skills have become technologically or economically obsolete. Particular attention must, therefore, be paid to the availability of jobs in industries where skills are roughly compatible. Otherwise, massive sectoral unemployment results. Trends in several key industries thus have a critical bearing upon trade policies and, more broadly, upon industrial development and growth.

Between 1965 and 1981, the import share of developed countries in the domestic U.S. auto market grew from six percent to over 27 percent. Foreign-made trucks accounted in 1973 for only five percent of domestic purchases; in 1981, the figure had risen to 20 percent. The pattern in steel, the nation's backbone, parallels the auto industry's experience. From barely five percent in 1962, the import share of the developed countries in the domestic steel market increased nearly fivefold to almost 25 percent in 1981.

It is currently being said that the decline in the market share of domestic auto and steel output, as in many labor-intensive manufacturing industries, may well be an affordable price to pay for a productive restructuring of the American economy. This argument suggests that basic manufacturing is a drain on the resources available to technology-intensive industries. The latter, it is contended, should be the mainstay of an economically advanced nation. The proponents of this view concede that it will result in some permanent unemployment, but, they argue, the long-run result will be a more competitive economy. The problem presented by occupational adaptability is acknowledged, but subordinated to the conclusion that promotion of high-technology industries will ultimately produce the most effective means to secure real economic growth. Such growth, it is said, would in time provide for considerably lower levels of unemployment.

Even if the enormous problem of occupational adaptability is ignored, dependence upon technology-intensive industries as the

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primary source of manufacturing employment is conceptually flawed. It fails to take account of the small labor component in technology-intensive production, compared with either labor-intensive or even most capital-intensive manufacturing.

Thus, under the most ideal of circumstances, reliance on technology-intensive production could not support present levels of manufacturing employment, let alone reduce current high unemployment. The practical deficiencies of this development concept are underscored, moreover, by evidence that the market shares for domestically produced technology-intensive goods are themselves declining.

A case in point is the American electronics industry, a field that truly grew out of American ingenuity. The basic new discoveries in the industry were made in this country over past decades, with defense and space programs providing enormous resources for research and development and guaranteeing a market for innovation. America's infrastructure has been second to none, and our ability to provide industry with the best trained minds has been unparalleled. As recently as 15 years ago, the global preeminence of the United States in electronics surpassed achievements in any other industry. Yet what should have been an enormous advantage has now dissolved.

The erosion began in consumer electronics. From negligible import penetration 20 years ago, we have moved to the opposite extreme. By 1978, the import share for videotape players and household radios was 100 percent. There was *no* domestic production in these products. In the same year, imports accounted for 90 percent of all domestic purchases of citizens band radios, 85 percent of all black and white television sets, 68 percent of all electronic watches and 64 percent of all stereo components. Even such sophisticated consumer electronics as color television sets and microwave ovens had large import shares. The figures (respectively 18 percent and 25 percent for 1978), however, do not tell the entire story; they understate the actual significance of import penetration because products assembled domestically and counted as American production include substantial overseas value-added in the form of foreign-produced components, sub-assemblies, circuit boards and complete chassis.

If the evaporation of American manufacturing leadership were limited solely to consumer electronics, perhaps we could console ourselves with the preeminence we have maintained in the most sophisticated areas of research. Even here, however, the outlook is increasingly distressing. Semiconductors, for example, represent

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literally the most home-grown U.S. industry, and epitomize the cutting edge of America's technological strength. Yet from a starting point of zero import penetration in 1975, Japanese firms alone have captured 40 percent of the U.S. semiconductor market and are rapidly moving into the international arena. Nor are the Japanese content merely to produce what has been created in this country. In less than a decade, they have made impressive progress in areas of high-technology research that were once the exclusive domain of American enterprise. The United States no longer holds the lead in such exotic processes as electron-beam lithography or memory circuit design. Rather, this country must now struggle to maintain parity in these and many other areas of high technology.

Even the computer, that great American technological achievement, is not safe from the mounting pressure of foreign competition. *U.S. Industrial Competitiveness*, a July 1981 publication of the Federal Office of Technology Assessment, concluded that, ". . . the Japanese have managed great strides since 1970. . . . Japanese hardware now seems largely competitive with American. . . . While . . . Japanese computer firms have yet to establish any real presence in the U.S. market, they clearly intend to try."

V

The demonstrated ability of foreign competitors to rapidly displace key American manufacturers in both the domestic and international markets suggests a fundamental weakening of the American economy. Lagging productivity is often cited as a cause. Yet, while the *rate* of productivity growth in the United States has been relatively low throughout the 1970s, the *absolute level* of American manufacturing productivity remains the highest in the world and the differential is substantial compared with that of our major trading partners. In absolute terms, Japanese and West German productivity levels in 1980 were respectively 66.3 percent and 88.3 percent of the American figure.[1]

Lagging productivity growth—from 1973 to 1980 it rose at an

[1] These estimates are those of the Bureau of Labor Statistics. The BLS data were cited before a congressional subcommittee by Under Secretary of Labor Malcolm R. Lovell, Jr., who noted that: "International comparisons of productivity are very difficult to make. The best available data [by the BLS] show that the United States has a higher output per employed person than other major developed countries, but that the gap is being narrowed." Statement of Mr. Lovell before the Subcommittee on Trade of the House Committee on Ways and Means, October 21, 1981, xeroxed statement, p. 10. The relevant BLS table is unpublished but available on request under the title, "Real Gross Domestic Product . . . per Capita and . . . per Employed Person, 1950–1980." The figures presented by Mr. Lovell have since been slightly revised, to those given above.

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annual rate of only 1.7 percent—is itself symptomatic of a more profound malaise. Like any symptom, it raises a number of ancillary questions. Why has the American economy (not unlike that of Great Britain) increasingly failed to replace many of its worn-out, antiquated, uncompetitive factories? Why has plant capacity utilization been so low during most of the 1970s that it currently rests at one of the lowest levels since the Great Depression? Why have major American corporations been drawn increasingly toward acquisition of other large companies and toward continued high levels of foreign investment?

Broadly speaking, this country has been following policies which can only lead to intensified deindustrialization. Unrestricted import penetration (during more than a decade of economic stagnation and retrogression) and insufficient new investments have played a vital contributing role in this process.

To the extent that imports have captured significant shares of the American market, demand for domestically manufactured goods has declined and there has been a substantial drop in domestic output. The resulting excess of capacity requires fixed overhead to be amortized on the basis of fewer units of production. The consequently high capital consumption costs per unit represent an inflationary pressure which results in higher prices and lower profit margins. The former diminish the competitiveness of U.S.-based industry, and the latter decrease the attractiveness of new productive investment.

Another inflationary pressure which accompanies unused capacity is reduced labor productivity. Managerial and professional staff cannot always be reduced in proportion to cuts in output. The same is often true of technical, maintenance or clerical staff who must perform essential functions irrespective of the level of output. Increased unitized labor costs which accompany excess capacity place an added burden on import-penetrated industries. Additionally, layoffs of key managerial and professional personnel, now taking place at an increasing rate, lead to sizable losses in investment, both in skills and in special knowledge of the firm and industry.

The negative effects of high levels of unused capacity in key industries have become even more self-perpetuating for two reasons. First, in relatively short order, supplier industries are affected as demand for industrial commodities decreases substantially. The high and persistent unemployment caused by diminished output has a snowball effect, reducing consumption and restricting growth in nearly every economic sector. Second, excess capacity

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affects management investment decisions. In competitive, entrepreneurial industries such as, for example, apparel and consumer electronics, the general response to imports has been to shift further from manufacture to importation and distribution. Although the strategies vary among specific corporations, the major corporations in this country have dealt with unused capacity by increasing overseas investments, by mergers and acquisitions, or by speculation in currency, commodities and various financial instruments.

Finally, there is a propensity on the part of consumers who have altered their purchasing patterns in favor of imports to maintain that pattern. Irrespective of any future efforts by American producers to regain the market, a sizable residual level of demand for imports will remain.

VI

From 1950 to 1980, direct foreign investment by American companies expanded from $11.8 billion to $213 billion, an average annual growth rate in excess of ten percent. The comparable average for domestic investment in the same years was less than seven percent. This latter figure, however, is deceptively high, since in recent years massive amounts of money counted as productive investment have actually been used to finance corporate mergers and acquisitions.

Direct foreign investments divert assets which could stimulate domestic growth, improve productivity and increase American competitiveness in world markets. Tens of billions of dollars have been used to substitute foreign jobs for jobs in the United States. Mergers and acquisitions, which have dominated domestic corporate finance in recent years, have neither spurred growth nor created jobs. Resultant concentration of ownership, however, has contributed to the furtherance of oligopoly and with it increased levels of inflation.

The rationale behind U.S. Steel's acquisition of Marathon Oil is a case in point. At a time when the American share of both domestic and world steel output is shrinking and when mass layoffs have crippled entire communities, expending $6.4 billion to purchase a thriving energy company would not appear to be the best way to serve the interests of the nation. The motivating logic was, perhaps, best expressed by Thomas Graham, Chairman of Jones & Laughlin Steel Corporation, who, in a November 23, 1981 interview with *The New York Times*, stated: "There's too much capacity in the free world. We in the U.S. have been

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victimized by imports for 20 years. It would be an imprudent businessman who would expand until those problems are solved."

What he describes is part of a vicious cycle. Low levels of real domestic investment in past decades and excessive import penetration deprive American manufacturers of the incentive to expand. Plants become obsolete, further eroding competitiveness. Firms that lack resources die or are swallowed up. Those that have resources produce an increasing share of their output overseas, adding directly to domestic unemployment, diverting capital from domestic investment and making the United States even less competitive. Others engage in acquisitions which neither increase output nor cut costs. Those with adequate resources have engaged in speculation in the dollar, earning huge profits at the expense of price levels. Investment in financial instruments in lieu of productive outlays is yet another variation of the domestic deindustrialization process.

On January 29, 1982, *The Wall Street Journal* reported that, rather than expand its high-technology base, Bendix Corporation "may be content to keep its $500-million pool of cash in short-term investments." Citing a rate of return for its investment portfolio more than double that of its manufacturing equity, Bendix Chairman William M. Agee concluded: "We may be an investor of money for an extended period of time."

These alternative processes have renewed and intensified the cycle of deindustralization; they are largely responsible for the loss of more than half of all the jobs in consumer electronics and large segments of steel, auto, home appliances, shoe production, tire and rubber output and apparel. There is no reason to believe that the trend will not continue to develop in every aspect of manufacture, simply because neither business nor government appears willing to do anything about it.

Since Japan has become the highly touted model of what to do, it is of interest that the Japanese have avoided this circular dilemma. As reported in *The Journal of Commerce* of November 6, 1981, Dr. Edwards Deming, often referred to as the prime architect of Japan's postwar boom, has observed:

> Management has failed in this country. The emphasis is on the quarterly dividend and the quick bucks, while the emphasis in Japan is to plan decades ahead. The next quarterly dividend is not as important as the existence of the company 5, 10 or 20 years from now. One requirement for innovation is faith that there will be a future.

Dr. Deming's last point should be emphasized in view of the

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apparent conclusion in some quarters that American manufacturing is expendable. Some of our economic pundits even suggest that industrialized countries, particularly the United States, abandon manufacturing and concentrate on service industries.

VII

The notion of an economy based entirely on services raises several distinct problems. Elimination of manufacturing jobs removes the usefulness of skills for which there is no analogue in the service sector, and creates insurmountable problems with respect to occupational adaptability. Loss of investment in the training of literally millions of industrial workers represents an additional massive cost to the economy. Because there are relatively few well-paying jobs in the service sector, an economy devoid of manufacturing would also necessarily experience a general decline in living standards.

Aside from the direct economic effects, a pure service economy in the United States would diminish and ultimately eliminate the nation's capacity to provide the technological edge upon which American defense strategy rests. The viability of defense industry is inextricably linked with the highly diversified nature of American manufacturing. Equally essential is the ability to produce components to maintain and operate the defense apparatus. Forfeiture of America's industrial base would, in time, reduce the United States to the status of a client nation with respect to the purchase of arms.

Additionally, an economy which forfeits its right to produce for its own needs would also be unable to encourage general technological skill or innovation. Forfeiture of this country's goods-producing sector would compel the best technological minds to migrate.

Unrestricted trade and the investment practices of the multinationals, as I have contended throughout this article, can only lead to an America ultimately devoid of manufacturing. Nevertheless, present trade and investment policies must also be viewed in a broader context than just the domestic economy. The United States has responsibilities and strategic interests that must also be considered. They relate as well to nations seeking economic development.

VIII

Developing countries have been encouraged to adopt a rapid industrial development model, one that is heavily dependent upon

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export-oriented manufacture. However, the proposition that rapid industrialization of developing countries via exports contributes to the establishment of stable democracies is highly questionable. American trade policy toward Japan, for example, was only one component in a comprehensive plan that included genuine fostering of human rights and the establishment of institutions necessary to the existence of a participative democracy, including the creation of a national labor movement. The absence of similar efforts in the developing nations has severely limited the liberalizing role of trade. This is particularly clear with respect to those nations' chief resource—cheap labor.

In a world in which capital, technology, managerial skills and transportation techniques are largely internationalized, labor costs take on a special importance. Often labor represents the only meaningful variable in production costs. Consequently, rising wages make national economies that are dependent upon export income vulnerable to competition from other developing nations. This vulnerability is exacerbated by the difficulties associated with transition from export-oriented rapid development to an integrated industrial economy.

In those nations that have been characterized as new industrial countries, the policy has been to maintain artificially low wage rates and to permit unconscionable employment practices. These practices have resulted in economic polarization and repression of workers' rights—outcomes which perpetuate autocratic rule.

In short, unrestricted trade and investment do not benefit the majority of American workers or employers who depend upon the domestic market, nor do they benefit the majority of people in the developing nations. They serve neither American strategic nor political interests. Who, then, benefits from present policy?

The multinational corporations have the best of both worlds in developing nations. Their massive resources place them in an enviable position to negotiate with a prospective host country, enabling them to exact favorable conditions. Tax abatements, donations of land, site preparation, and waiver of requirements that they comply with government regulations are among the standard concessions made to global firms. Less publicized is the de facto subsidization of profits which occurs when the host country takes measures to keep wages artificially low. The incentive for repressive measures in developing countries comes, additionally, from the certain knowledge that there are other developing nations eager to host multinationals, nations where living standards are even lower.

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How then should the United States deal equitably with assistance to developing nations, and, at the same time, maintain existing jobs, create additional employment, arrest the declining role of American industry and rebuild its industrial base?

IX

There are a number of specific measures that would facilitate reindustrialization in the United States and lead to positive development for both the United States and its trading partners. Implementation of a rational system of fair trade should certainly be a priority. Central to such a trade policy would be import quotas negotiated on a global basis in those sectors where import penetration has significantly diminished domestic employment and threatens to continue this process.

Increments in imports should be linked to the ability of the American economy to absorb them. Massive disruptions in domestic markets, the result of large increases in import levels from exporting countries, should be avoided. Negotiated import quotas would permit exporting nations to know in advance the potential size of the market in the United States and their share in it, and permit them to plan accordingly. Moreover, allocation on a global basis would prevent the rapid shift of market shares to nations where living standards are even lower than in the traditional exporting nations. A rational policy of fair trade can protect job opportunities in exporting as well as importing nations.

Let me emphasize that I am in no way advocating a revival of autarky. A return to the protectionism that characterized American trade policy in the 1920s and 1930s would be disastrous. I am just as convinced, however, that if we continue our present policy, mounting political pressure will make total protectionism unavoidable. Little time is available to begin corrective measures. The evident trend toward autarky is not likely to abate in the wake of anticipated levels of unemployment in excess of ten percent and the fear of continued high levels of unemployment, even with economic recovery.

Profit-seeking, regardless of its costs to our nation and people, has been central to the process of deindustrialization. The rate of return on U.S. direct investments abroad is, as I have observed, significantly higher than profits on domestic investments. Many of the largest corporations and banks make 50 percent or more of their profits abroad, providing an irresistible incentive to those with enough resources to operate on a global basis. The allure also holds for diversification, via mergers and acquisitions.

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This is not an indictment of the business community. I am saying, however, that in the interest of short-term profits America may be losing sight of its priorities. Most critical among such priorities is an acceptance of the principle that full employment, a viable goods-producing sector and decent living standards are essential to the national interest and to the interests of those nations that depend upon the strength of our economy.

A rational policy of fair trade is only a starting point. A common ground among labor, industry and government in pursuit of full employment must be found. To those who counsel that such a goal would be excessively costly, I say simply that the costs are miniscule compared with the price of high unemployment. Economic chaos caused by the Reagan Administration's shortsighted policies now threatens to result in the highest federal deficits in American peacetime history. This cost is a mere shadow of the penalty that unemployment places on the national economy, in terms of foregone income and missed improvements in the quality of American life.

To compete in both the domestic and world markets, this nation must increase productivity, not lower the American living standard. A meaningful commitment to full employment will increase demand, allow idle plant to be more fully utilized and result in new productive investment and important increments in productivity. In such an environment, fears of technological or import-related displacement would be largely mitigated and technological innovation permitted to proceed at an unprecedented rate, to the benefit of Americans as well as the people of other countries.

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Robert B. Reich

MAKING INDUSTRIAL POLICY

Economies are like bicycles. The faster they move, the better they maintain their balance unaided. An economy experiencing rapid growth can adjust with relative ease to changes in supply, demand and technology. Workers whose jobs are threatened because of new products, shifts in consumer tastes, or automation can find new jobs; communities whose major industries are failing can attract new industry; and firms whose products are becoming less competitive can diversify into more competitive lines of business. All these adjustments, in turn, help ensure continued growth.

Adjustment is less automatic, however, in an economy growing slowly. Under these circumstances, workers, communities, and firms facing economic changes that erode their competitive position often have no profitable alternative toward which to shift their resources. Because the process of economic change may seriously threaten their future well-being, they turn to political devices designed to stem the tide, at least temporarily: legislation to stop runaway plants, regulations to prohibit the introduction of new technologies, government-financed bailouts. But protections like these retard future economic growth by encumbering the movement of resources toward more productive uses, and the downward cycle perpetuates itself.

Foreign trade intensifies both alternatives. It can make a growing economy even more dynamic—providing domestic firms with a wider range of resources and technologies with which to produce, and a larger market in which to trade, than they could enjoy in a single national economy. The international arena thereby offers opportunities to reduce unit costs far more rapidly than they could be reduced in a single economy, and thus contributes to faster economic growth.

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On the other hand, foreign trade can exacerbate the problems of adjustment within a slow economy. Under these circumstances, more rapid growth often takes place in a different nation, to which domestic capital is attracted. Domestic labor is left behind within vast regional pockets of unemployment from which escape is costly and psychologically difficult, while domestic industries that have high fixed costs gradually lose their market share to their foreign rivals.

In this situation, political demands for protection are apt to result in tariffs, quotas, orderly marketing agreements, or the ever more popular "understandings" by which competitive exporters "voluntarily" hold back their wares. Restrictions may also be placed on the international flow of capital—limiting foreign ownership or foreign investment by domestic firms. Protectionism of these sorts is likely to be far more potent than regional protectionism; while local rivalries can be superseded by a strong national government and by constitutional provisions that prohibit trade barriers within the nation, coalitions against foreign imports cannot be so easily overridden.

During the 1970s, the economies of the United States and its major industrial trading partners—West Germany, Britain, France and Japan—shifted toward both slower growth and greater exposure to international trade. In the period 1960 to 1973, annual growth in America's real gross national product per employed person averaged 1.8 percent; between 1974 and 1978 average annual growth dropped to 0.1 percent. Over the latter interval, West Germany's growth fell from 4.7 to 3 percent; France's from 4.5 to 3 percent; Britain's from 3.2 to 0.8 percent; and Japan's from 8.9 to 3.2 percent.[1] Meanwhile, U.S. exports, measured as a percentage of the final sale of goods in the United States, steadily increased from 8 percent in 1969 to 17.3 percent in 1979; imports, measured similarly, increased from 8 to 21.2 percent.[2] For all developed countries, exports of goods and services over this period rose from 13.2 percent of gross domestic product to 17.6 percent.[3]

There are many explanations for these two phenomena. The decline in world productivity has been attributed variously to the sudden surge in oil prices and the gradual depletion of global

[1] *National Accounts: U.S.*, Paris: Organization for Economic Cooperation and Development, 1960–1979.

[2] U.S. Department of Commerce, *International Economic Indicators*, Washington: GPO, 1969–1980.

[3] Telephone interview, U.S. Chamber of Commerce, Forecast Center, Washington, D.C., March 1980.

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resources, the end of labor migration from the farm, the entry of a greater number of young people and women into work forces, and government policies designed to curb inflation and protect public health, safety and the environment.[4] The simultaneous internationalization of trade is due to technological advances in world transportation and communication, such as container ships and communications satellite technology; to the diffusion of new productive capacity to developing nations with lower real wage rates than those of industrialized countries; and to a set of international agreements, beginning in the late 1940s and culminating in the 1960s and early 1970s, which progressively reduced world tariff levels.

Predictably, problems of adjustment have grown in tandem. The United States and several of its major trading partners have suffered declining world market shares in basic steel, shipbuilding, natural-fiber textiles and apparel, and more recently, petrochemicals and aluminum. In the United States alone, auto imports now claim 27 percent of the domestic market, up from 4.1 percent 20 years ago; imports of consumer electronic products like television receivers and stereos now constitute 50.6 percent of the market, up from 5.6 percent in 1960; cutlery is now at 90 percent, from 8.2 percent; steel now at 14 percent, from 4.2 percent; metal-forming machine tools now at 28 percent, from 3.2 percent; textile machinery now at 45.5 percent, from 6.6 percent. The list goes on, growing longer year by year: calculators, typewriters, photocopiers, cameras, footwear, food processors, tires, industrial and organic chemicals.[5]

The problem is not that domestic industries are declining, although that is how the problem is often characterized. To the contrary, industrial declines are to be expected, even encouraged, as an economy shifts to new industries that generate higher real incomes for its citizens. The problem is that these shifts are not occurring automatically. Due to slow growth, new industries are not springing up of their own accord to replace the old. Instead, many industrialized countries faced with competitive declines in key industries are now experiencing increasing unemployment and underutilized industrial capacity, made worse by fiscal and monetary policies designed to curb inflation.

Calls for protection, therefore, are growing louder. In the United

[4] Edward F. Denison, *Accounting for Slower Economic Growth: The United States in the 1970s*, Washington: The Brookings Institution, 1979, Table 7-3.

[5] U.S. Department of Commerce, *United States Industrial Outlook*, Washington: GPO, 1960–1981; U.S. Department of Commerce, Bureau of the Census, Statistical Trade Series FT210 and FT610.

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States certain key industries already have achieved a measure of relief. Since 1969, the U.S. steel industry has been protected from foreign competition; it is now demanding even higher levels of protection. So too with American textiles, apparel, and footwear. Last spring the Reagan Administration, ostensibly committed to free trade, negotiated an agreement by which Japanese automakers would "voluntarily" restrain their exports to the United States. Many European steel, textile, and auto manufacturers are demanding similar or greater protection. France has recently launched a $1.4-billion program to "recapture the domestic market" in machine tools, textiles, leather goods and furniture by providing subsidies to French purchasers that buy them from French producers.[6]

But protection is not inevitable. Economies which, due to slow growth, cannot adjust automatically to competitive declines in key industrial sectors have an alternative to protection—managed adjustment. Government, working hand in hand with business and labor, can ease the transition out of declining industries and into emerging ones. Workers can be given assistance in retraining and relocation; outmoded infrastructure can be modernized; and businesses can be encouraged to divest themselves of their least competitive parts and to reinvest in new, more competitive industries—particularly in regions of potentially high unemployment and underused infrastructure. Through managed adjustment, government can compensate economic actors who otherwise would be threatened with a disproportionate share of the burden of economic change, and who therefore would seek protection.

Conceptually, the choice between protection and managed adjustment is relatively clear-cut. In practice, distinctions become blurred. A subsidy designed to aid a firm or industry in restructuring itself to be more competitive internationally may simply prolong the agony, while eroding the competitive position of other firms in closely allied industries whose production would otherwise have expanded to fill the gap. An assistance program designed to aid workers in gaining new skills or finding new jobs may function as a prolonged type of unemployment compensation, discouraging workers from making hard choices and shifting to new lines of work. A program of community assistance intended to upgrade local infrastructure and attract new industry may be used simply to prop up ailing businesses or to bid firms away from other

[6] The specific mechanisms by which France plans to revive these industries are obscure, but interviews undertaken by the author in January 1982 within various French ministries left little doubt that they are protectionist in design and intended effect.

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communities that are in equally dire straits. And an import quota designed as a temporary measure to give a declining industry time in which to restructure may be nothing more than a weakly disguised form of ongoing protection. In short, protection often masquerades as managed adjustment, in a disguise so clever that its true identity cannot be discerned until the costs of protection already have been incurred.

How, then, can a nation genuinely achieve managed adjustment? It can achieve it only by means of an explicit bargaining relationship between government, business, and labor—visible to the public at large—in which adjustment is made an express object. Government must, in effect, enter into contracts through which its assistance is exchanged for specifically agreed-upon shifts in private sector resources.

As we shall see, some of our trading partners—most notably Japan and West Germany—have developed mechanisms for entering into such public contracts. These mechanisms exist in sharp contrast to the various protectionist guises through which the United States has dealt with its declining and emerging industries.

II

During the past 15 years, U.S. government programs to assist declining industries have mounted—in the form of loans, loan guarantees, direct aid, tax expenditures, and various forms of tariffs, quotas, and import relief—but none has been conditioned on an industry's express willingness to restructure itself toward greater productivity and competitiveness. Typically the assistance has been used to maintain existing price-earnings ratios rather than to build new plants, upgrade equipment, undertake new research and product development, or upgrade the work force.

Major steel producers in the United States, for example, failed to invest in new plant and equipment during the "breathing space" they enjoyed after voluntary restrictions on imported steel first went into effect in 1969. In fact, the industry's capital expenditures for each of the six subsequent years were below the 1968 level. Nor did the steel industry undertake any major restructuring after the "trigger-price" system was initiated in 1978. The same failure to retool during periods of protection has characterized most of the U.S. apparel, textile, footwear, and color television industries. Indeed, the recent "voluntary" restriction on the export of Japanese automobiles to the United States was premised on the U.S. automobile industry's tacit agreement to use the opportunity to retool; but because that agreement was never formalized,

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the government and the public have no recourse now that these investment plans are falling short of their original targets.

To be sure, government programs to encourage new investment often have been inadequate to the task. Industries in dire straits typically have difficulty raising the capital necessary for restructuring, since banks and investors are understandably reluctant to sink money into enterprises that show so little promise of profitability in the short run. But the quotas, trigger-price systems, and other forms of import protection have, at most, provided declining industries with a respite from further erosion of their profits rather than with a surge of new cash.

Tax credits or depreciation allowances have rarely helped, since there are no profits to deduct them from. (Provisions adopted in 1981 to allow leasing of such tax benefits to other firms solved this problem for some companies, but those provisions have proved to be so politically unpopular that they seem doomed.) The Trade Act of 1974 authorized the government to provide limited loans and loan guarantees to companies injured by foreign competition, but it restricted eligibility to companies that already had experienced an absolute decrease in sales or production. As a result, these funds have come too late, after companies already have been seriously weakened, and the help has gone to the poorest companies in the industry rather than to those with the best chance of regaining a share of the world market. In any event, the funding has been too limited. In the apparel industry, for example, the average grant has been approximately one million dollars—not nearly enough to permit major retooling.

Government subsidies typically have come in the form of ad hoc bailouts to particular near-bankrupt firms, like Lockheed and Chrysler, upon which the government has imposed an ongoing, cumbersome form of review. Indeed, there are strong parallels between the government's role in these programs and the roles assumed by creditors and judges under the reorganization provisions of the bankruptcy code. But once again, the government's involvement has been too little, too late: Lockheed has never recovered its commercial competitiveness, and Chrysler's fate, while not yet sealed, seems dubious. More important, this process of reorganization is far too particularized and administratively cumbersome to form the basis of a broad adjustment program.

The other type of industry restructuring to which the U.S. government has contributed in recent years has been the negative one of rolling back health, safety and environmental regulations. In response to claims by the auto, steel, and textile industries that

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such rollbacks were necessary for their competitive survival, recent Administrations have trimmed, rescinded or extended timetables for complying with various regulations. The Reagan Administration has taken on this task with a vengeance. In conjunction with its push for Japanese restraint on auto exports, for example, the Reagan Administration decided to relax or rescind 34 environmental and safety regulations upon automobiles.

These sorts of regulatory requirements are not responsible for the competitive decline of U.S. industry, and regulatory rollbacks are unlikely to result in industry revitalization. During the 1970s the U.S. steel industry spent an average of $365 million annually to reduce pollution and improve worker safety—about 17 percent of its total capital investment during the decade. Of this cost, 48 percent was underwritten by state and local governments through industrial development bonds.[7] During the same period Japanese steel manufacturers spent more than twice that amount for the same purposes.[8] Even if Detroit retains all the money it hopes to save by avoiding regulations—an estimated $1.4 billion over the next five years—it will not come close to raising the $80 billion it needs to retool sufficiently to regain competitiveness with Japan.

Industry savings from regulatory rollbacks rarely have been translated into new plant and equipment or new research and development. When U.S. Steel entered into consent decrees with the Environmental Protection Agency in 1979, giving the company extra time in which to comply with pollution requirements, for example, U.S. Steel's Chairman noted that the company could "now act aggressively to revitalize [its] Pittsburgh area operations." But the company has made no major investments in Pittsburgh since then. Similarly, the Steel Compliance Act of 1981, amending the Clean Air Act to allow steel companies to defer compliance for three years, failed to require that the companies use their newfound savings to restructure their operations; not surprisingly, little restructuring has followed. Steel industry investment in new plant and equipment is now running more than one billion dollars short of what industry spokesmen themselves say they need to modernize.[9]

Indeed, notwithstanding substantial import barriers to protect domestic steel producers, tax incentives, and assorted regulatory

[7] Office of Technology Assessment, *Technology and Steel Industry Competitiveness*, Washington: GPO, 1980, pp. 341–359.

[8] General Accounting Office, Comptroller General of the United States, *New Strategy Required for Aiding the Distressed Steel Industry*, Washington: GPO, 1980, pp. 5–7.

[9] *The New York Times*, January 31, 1982, p. 26F.

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rollbacks, all designed to encourage new steel investment, the U.S. steel industry has been diversifying out of steel at a rapid clip. In 1980, for example, steel operations accounted for only 11 percent of U.S. Steel's operating income; the rest came from chemicals, manufacturing, transportation, utilities, and resource development.[10] U.S. Steel, Armco, and National Steel Corporation all have been moving out of steel since the mid-1960s. The pace of diversification slowed only after 1973, when the industry found itself in need of additional cash. The Reagan Administration's recent tax and regulatory reductions may have spurred a new round of diversification, as demonstrated by U.S. Steel's recent $6.4-billion offer to purchase Marathon Oil Company.

This is not to suggest that steel, or any other industry in distress, should necessarily reinvest in its original product. Diversification into a more competitive industry may be a far superior adjustment strategy. But adjustment assistance is often provided to distressed industries on the assumption that they need it to regain competitiveness rather than simply to maintain overall corporate profitability. At the very least, companies receiving such assistance should be required to specify the investment strategy they will pursue, and the public should have an opportunity to decide whether that strategy merits public support.

The problem of industrial decline is compounded by the fact that firms, workers and communities typically adapt to changing economic circumstances at different rates. While firms often are capable of divesting themselves of their least competitive parts and diversifying in more promising directions, a large part of the labor force is relatively immobile both in terms of geography and skills. Workers are often unwilling to leave family, friends and familiar territory; unable to finance their own retraining; and ignorant about where new jobs are located and for what jobs retraining should be sought.

By the same token, the community's infrastructure of roads, sewers, educational institutions, and other public goods often depends on a steady stream of tax revenue; the sudden departure of industry thus may leave the community without any alternative means of support—and just when demands on public services by the newly unemployed are at their peak. The management of industrial decline thus requires not only that resources be moved to more productive and competitive uses, but also that the movement be coordinated so that all resources can be fully utilized.

[10] *The New York Times*, November 20, 1981, p. D4.

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One means of ensuring coordination would be for government to condition its adjustment assistance to industry on the industry's willingness to take responsibility for the adjustment problems of its workers and communities. But U.S. government programs for declining industries have not been so conditioned. On the contrary, adjustment assistance to industry has often had the opposite effect—providing firms with just enough capital to diversify out of declining businesses and simultaneously relocate their operations, while leaving their workers and communities behind.

Rather than incorporate worker and community adjustment into its industrial adjustment programs, the U.S. government has treated these problems separately. Special programs have been designed for workers and communities—to provide relocation, retraining, and extended unemployment insurance to workers whose jobs have been eliminated because of imports, and aid to communities facing economic decline. But the disassociation of these programs from industry adjustment has rendered them irrelevant to the process of industrial change.

Administered by the Department of Labor, and far removed from the forums like Treasury, Commerce, and the Special Trade Representative where adjustment assistance programs for industry are formulated, worker adjustment programs have been encumbered by administrative problems of determining whether imports are to blame for job loss, and of deciding where workers should relocate and for what jobs they should seek retraining. In practice, these programs have provided workers with little more than extended unemployment compensation.[11] It is not surprising, therefore, that the Reagan Administration has targeted them for substantial reductions.

Community assistance programs intended to spur economic development have been plagued by similar problems of irrelevancy. Firms seeking to diversify or develop new products in an effort to regain competitiveness seldom, if ever, base their location decisions on financial lures offered them by needy communities—lures such as tax abatements, low-interest financing, or transportation facilities, most of which are made possible by federal grants. For one thing, the real value of these offerings comprises, at most, a very small fraction of the costs of starting and operating a new enterprise in the area, particularly when compared to factors such as prevailing wage rates, the availability of particular skills, access

[11] See General Accounting Office, Comptroller General of the United States, *Considerations for Adjustment under the 1974 Trade Act: A Summary of Techniques Used in Other Countries*, Washington: GPO, January 18, 1979.

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to raw materials and suppliers, and local energy costs. Perhaps more significantly, so many jurisdictions now offer these inducements that they largely offset one another. For example, program eligibility standards have been drawn so loosely for grants from the Economic Development Administration of the Commerce Department that 80 percent of the communities in the United States are now eligible; over half of the nation's locales have been deemed eligible for Urban Development Action Grant programs administered by the Department of Housing and Urban Development; and, as a practical matter, every community in America can offer low-interest loans financed by industrial development bonds.

The problem of industrial adjustment outpacing worker and community adjustment is made worse by other public policies. The tax code, for example, promotes the mobility of capital but not the utilization of unemployed labor or underused public infrastructure. Firms in declining industries typically can take a tax loss on plant and equipment that they leave behind, treat the cost of moving their headquarters as a deductible business expense, and take advantage of accelerated depreciation and tax credits for their investments in new plant and equipment elsewhere. But they reap no advantage from keeping their former employees or from utilizing the infrastructure of their former communities. At the very least, adjustment policies should ensure that tax deductions, accelerated depreciation, and tax credits not retard worker and community adjustment. Perhaps tax benefits should be provided for reinvestments in "human capital" and renewed contributions to local tax bases.

Similarly, our antitrust laws recognize that restrictions on mergers should be relaxed with regard to failing firms, which otherwise might be deprived of the capital they need to regain competitive strength.[12] But failing firms that have been exempted from normal antitrust rules on this ground have not been required to take responsibility for their workers or communities. On the contrary, the mergers have often resulted in the relocation or closing of the failing firm's facilities. Perhaps government antitrust officials should condition their permission for such mergers upon agreement by the merging companies to maintain local employment or to provide retraining and relocation assistance. In addition, antitrust law and its administration might recognize a "failing work force" and a "failing community" as a justification

[12] *International Shoe* v. *FTC*, 280 U.S. 291 (1930); *U.S. Steel Corp.*, 74 FTC 1270 (1968), aff'd, *U.S. Steel Corp.* v. *FTC*, 426 F. 2d 592 (C.A. 6, 1970).

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for mergers that could speed the pace of worker and community adjustment but might otherwise be deemed illegal.

III

In respect to both problems—accelerating the overall pace of adjustment within a national economy, and coordinating the paces at which a nation's firms, workers and communities adjust relative to one another—the policies of West Germany and Japan have been more successful than those of the United States. Perhaps the organization of economic adjustment comes easier to nations that have been substantially dependent on international trade for a long period of time, or have been forced to rebuild their economies from the ground up. Whatever the cause, Japan and West Germany have made adjustment a centerpiece of their national economic strategies.

Since the 1973 oil crisis and subsequent recession, both West Germany and Japan have moved capital and labor out of industries with little promise of long-term competitiveness, leaving behind smaller, more streamlined industry segments better able to compete. For example, while other governments were busy promoting investment in basic steel in the mid-1970s, both West Germany and Japan anticipated the competitive decline of their basic steel industries and facilitated the movement of resources out of steel.[13] They have undertaken similar, although not uniformly successful, efforts in shipbuilding, fibers, aluminum and petrochemicals.

Under Japan's Structurally Depressed Industries Law, the Ministry of International Trade and Industry (MITI) can form so-called recession cartels within depressed industries, temporarily restricting output and thereby driving up prices. The key to the success of the program, which differentiates it from America's notoriously unsuccessful experiments in cartel management, such as that administered in 1933 by the National Recovery Administration, lies in the explicit subsidies given to firms that agree to scrap what they deem to be excess capacity, and the utilization of these subsidies by the firms to retrain and relocate their workers for more profitable endeavors. The subsidies for scrapping thereby accomplish two related objectives: they induce the least competitive firms to exit from the industry, thereby improving the profitability of more competitive firms; and they provide workers with

[13] See Federal Trade Commission, *Staff Report on the United States Steel Industry and Its International Rivals*, Washington: GPO, 1977, pp. 94–129.

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adjustment assistance that is directly related to the shift occurring in the industry.[14]

West Germany has instituted a similar program, but one which is somewhat less explicit and administered primarily through banks and regional labor boards rather than subsidized cartels. Industries in distress receive bank loans and regional subsidies in exchange for their willingness to reduce capacity. The loans and subsidies are used expressly to shift resources into growing industries within the same locales. Germany's regional programs are substantial, averaging four billion dollars annually since 1970 (in 1980 dollars), or 15 percent of total German industrial investment. At the same time, the government provides displaced workers with vouchers that can be cashed by firms that agree to employ them. Each voucher's cash value typically equals the difference between the worker's contribution to the new firm and the cost to the firm of retraining him or her and matching his or her former salary.[15]

These adjustment programs have worked for two reasons. First, they are based on contracts among government, business and labor, in which all parties agree in advance to certain shifts of industrial resources. Secondly, these programs tie industry adjustment to worker and community adjustment. They thereby "internalize" the social costs of economic change.

IV

The adjustment problems of emerging industries mirror those of declining industries. Often presenting risky investment opportunities, emerging industries nonetheless can substantially benefit an economy by spawning new technologies, products, skills and jobs. Emerging industries thereby ease the problems of adjustment out of declining industries. But because these benefits seldom redound entirely to private investors, the amount of capital privately invested in emerging industries, and the allocation of that capital among such industries, will seldom match public needs. Thus, just as a strong case can be made for policies designed to ease the movement of capital, labor and public resources out of industries in long-term decline, an equally strong case exists for policies that accelerate the movement of these resources into industries that can become highly competitive in the world econ-

[14] Interview with Takeshi Isayama, Deputy Special Representative, Japanese Ministry of International Trade and Industry, December 9, 1981.

[15] For a more detailed discussion of these and other adjustment policies, see Ira Magaziner and Robert B. Reich, *Minding America's Business*, New York: Harcourt, Brace, Jovanovich, 1982.

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omy, and which are critical to the future competitiveness of the national economy.

The U.S. government has responded to emerging industries primarily through its national defense and aerospace programs. Notwithstanding that the goal of economic adjustment has not been an objective of these programs, they have contributed to U.S. leadership in world sales of aircraft, communication satellite technology, hard plastics, synthetic rubber, computers, semiconductors, lasers, fiber optics, radio and television communication equipment, robotics, optical instruments, scientific instruments and many other products.

The Pentagon now funds approximately 30 percent of U.S. research and development; for basic research, concerned with broad-based and theoretical experimentation that may have few immediate commercial applications, government funding exceeds two-thirds of the total.[16] In some industries, government support reaches particularly high levels. In 1977, for example, the government funded 70 percent of research and development in the aircraft industry and 48 percent in the communications equipment industry.[17] Other industries have enjoyed very little direct government support, and this differential undoubtedly has affected the relative speed of their commercial development. For example, only one percent of the research budget of the pharmaceutical industry is funded by the government.[18] It is interesting to note that the governments of our trading partners fund a much smaller percentage of their national research and development. Even the Japanese government, which is expressly committed to promoting Japan's emerging industries, funds only 16 percent of Japan's research and development.[19]

Large-scale defense and aerospace contracts also have provided emerging industries in the United States with a ready market for which they have expanded production and thereby gained valuable experience, know-how and scale economies. The Pentagon's willingness to pay a high premium for quality and reliability, moreover, has helped emerging industries bear the cost of refining and "debugging" their products. Largely as a result of government contracts, for example, the U.S. semiconductor industry was able to reduce its unit costs quickly during the 1960s and emerge as a commercial leader in the world market. As the arms race and the

[16] *National Patterns of R and D Resources, 1953–1972*, Washington: National Science Foundation, 1972.

[17] National Science Board, *Science Indicators 1978*, Washington: GPO, 1979.

[18] *Ibid.*

[19] Japan Institute for Social and Economic Affairs, *Research and Development Funding*, Tokyo, 1981, p. 66.

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moon race both demanded smaller, faster, and more reliable memory units, the Defense Department and the National Aeronautics and Space Administration (NASA) became the largest purchasers of semiconductors—together accounting for almost one-third of the market by 1967. Integrated circuits which cost $50 in 1962 cost only $2.33 by 1968, making them attractive for use in many commercial products. Over the same period the size of the semiconductor market increased from $4 million to $31 million.[20]

Many other emerging industries in the United States have followed the same pattern. In 1950, government purchases accounted for 92 percent of aerospace sales. Military aircraft thereafter were adapted to civilian uses—the Boeing B-47 and B-52 bombers became the Boeing 707; the Douglas A-3D, A-4D, and B-66 military aircraft became the DC-8. The nascent American computer industry also relied on government support. In 1954, the government was the only major purchaser of computers; by 1962, the government market still represented almost one-half of total computer sales. The U.S. government continues, moreover, to provide a substantial market for several U.S. industries: in 1977, government purchases accounted for 56 percent of all U.S. aircraft shipments, 57 percent of the sales of radio and communications equipment, 12 percent of engineering and scientific instruments, and 12 percent of transmitting electron tubes.[21]

To a significant extent this government-created market has been open only to U.S. firms. Although the "Buy American" provisions of the government procurement laws were relaxed somewhat in 1979, government contracts involving national security are still awarded solely to domestic firms.

U.S. defense and aerospace programs have accelerated the emergence of new industries in other ways as well. Large government contracts often have required that private manufacturers cooperate on research projects, parceling out tasks to one another in a manner that the U.S. antitrust laws might otherwise prohibit. Military and NASA training has also spawned several generations of advanced engineers and skilled machinists whose training has been critical to the development and production of commercial high technology.

Viewed in this light, there is a striking similarity between America's defense-related and aerospace programs, and other

[20] See generally, Federal Trade Commission, *Staff Report on the Semiconductor Industry*, Washington: GPO, 1977.

[21] E. Ginzberg et al., *The Economic Impact of Large Public Programs*, Salt Lake City: Olympus, 1976; U.S. Department of Commerce, Bureau of the Census, *Shipments to Federal Government Agencies*, Washington: GPO, 1978.

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nations' industrial policies that are expressly designed to accelerate the development of emerging industries. For example, Japan's MITI has sought to hasten the development of high-technology products through its direct support of research, joint research projects involving several companies simultaneously, and leasing arrangements and (at least until the mid-1970s) import controls designed to give Japanese producers a large and captive home market and thereby enable them to gain the experience and scale necessary to reduce their unit costs and compete internationally.

Even the technologies on which MITI and the Pentagon are focusing are similar. Since 1975, for example, MITI has financed one-third of the development costs of very-large-scale integrated circuits—the next major stage in the evolution of semiconductors; the project involves four leading Japanese semiconductor and computer manufacturers.[22] In 1979, the Defense Department launched its own very-large-scale integrated circuit project, involving nine American semiconductor and computer manufacturers; the Pentagon has budgeted $300 million for the project over a ten-year period.[23] Similarly, MITI has embarked on a program to spur the Japanese robotics industry, entailing an expenditure of $140 million over the next seven years.[24] The U.S. Air Force and NASA have their own version of the same project—a $75-million program to develop an automated "factory of the future," based on integrated computer-aided manufacturing technology.[25]

MITI and the Defense Department also are squaring off in fiber optic communications (MITI is devoting approximately $30 million over the next few years, and Nippon Telephone and Telegraph, the large Japanese public corporation, is providing a major market; the Pentagon, meanwhile, is spending about $40 million annually on this technology);[26] lasers (MITI is coordinating and subsidizing research; the Pentagon is providing $243 million in research funds in 1981 and accounting for over 50 percent of U.S. laser sales);[27] computer software (MITI has launched a three-year, $180-million program for new applications software packages; the

[22] Japanese Ministry of International Trade and Industry, *The Vision of MITI Policies in the 1980s*, Tokyo, March 17, 1980.

[23] William Baldwin, Federal Trade Commission, Office of Policy Planning, *The Impact of Department of Defense Procurement on Competition in Commercial Markets: Electronics*, Washington: GPO, December 1980, pp. 92–95.

[24] Japanese Ministry of International Trade and Industry, *The Vision of MITI Policies in the 1980s*, *loc. cit.*

[25] *Computer Aided Engineering*, January 1981, pp. 25–30.

[26] *Fiberoptics Report*, June 15, 1981, pp. 1–3.

[27] *Laser Report*, August 10, 1981, p. 2.

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Pentagon is about to launch a $20-million software program applicable to missile guidance and radar);[28] and a host of other technologies.

Although further behind in the development of many of these technologies, France, Great Britain and West Germany are also assisting their emerging industries to become internationally competitive. The French government, for example, is supporting the development of very-large-scale integrated circuits by encouraging joint ventures with American companies and simultaneously providing $140 million in direct subsidies. West Germany is taking a similar approach, with subsidies of approximately $150 million. And Great Britain is providing its emerging integrated circuit industry with $110 million.[29]

V

Here, however, the similarities with the United States end. While U.S. defense and aeropsace programs have spurred industrial development, they have not always spurred it in the direction of commercial success. Apart from the Pentagon's broad concern for the economic health of U. S. defense contractors and NASA's recent flirtation with commercial applications for its space shuttle, the Department of Defense and NASA have no interest in the successful marketing of new products. Indeed, defense and aerospace programs actually may have jeopardized the international competitiveness of American manufacturers. By contrast, the efforts of our trading partners, particularly Japan, have been focused directly on world competition for commercial markets.

The marketing of new commercial products is stimulated by domestic competition, which forces firms to improve their performance and aggressively seek foreign outlets. Although MITI allows firms to cooperate on specific basic research projects, it ensures that they are fiercely competitive in marketing. For example, 32 Japanese companies now produce semiconductors, and the competition is intense. The competition is equally strong in the computer industry, with Nippon Electric, Hitachi, and Fujitsu each trying to gain the lead.

The U.S. Defense Department, however, has been unconcerned about competition within American industry. Over 65 percent of the dollar volume of U.S. defense contracts is awarded without

[28] Baldwin, *op. cit.*, pp. 80–92.

[29] See "Innovation, Competition, and Government Policy in the Semiconductor Industry," unpublished consulting report, Charles River Associates, Boston, March 1980, pp. 3–48.

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competitive bidding.[30] And even where competitive bidding has occurred, the bids are often rendered meaningless by substantial cost overruns. The Pentagon seems most comfortable with large, stable contractors who are relatively immune to the uncertainties of competition. Most of the early defense contracts for integrated circuits, for example, went to large, well-established manufacturers that were producing soon-to-be-outmoded vacuum tubes, like Western Electric, General Electric, Raytheon, Sylvania and R.C.A., instead of innovators like Texas Instruments, Motorola and Transitron. Even as late as 1959, the old-line vacuum tube companies were awarded 78 percent of the federal research and development funds devoted to improving the performance and reducing the cost of the transistor, although they then accounted for only 37 percent of the commercial market.[31] The innovators eventually penetrated and then dominated the market, despite the Department of Defense. On occasion, the Pentagon actually seems averse to competition, particularly when competition threatens the stability of a prime contractor. Secretary of Defense Caspar Weinberger recently argued that the government's antitrust suit against the American Telephone and Telegraph Company should be dropped on the ground that, if successful, it would threaten the viability of AT&T, and hence jeopardize national security.

The successful marketing of new products also requires long lead times, during which firms can apply new technologies and make sure they have adequate capital, labor and productive capacity to meet anticipated demand. Many MITI projects span a decade or more. But Pentagon and NASA programs are subject to relatively sudden changes in national security needs and prevailing politics. Between 1967 and 1974, in the wake of Vietnam, defense-related research and development declined by $3.7 billion (in constant 1972 dollars), drastically reducing the nation's demand for scientists and engineers and retarding the development of various defense spin-offs. Because this contraction came during a recession, when the economy was trying to adjust to the oil-price rise, emerging industries that had relied in part on defense contracts were doubly hit. American semiconductor manufacturers, for example, cut their capital equipment purchases by half and laid off thousands of skilled workers. By contrast, the Japanese chip makers—with their tax privileges, loans, subsidies and tariffs in place—could afford to expand their production and improve

[30] Baldwin, *op. cit.*, p. 13, Table II-1.
[31] *Ibid.*, p. 53.

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their technology in anticipation of the next economic upturn.[32]

The precipitous rise in U.S. defense spending planned for the next five years is likely to create bottlenecks in the production of key subcomponents and capital goods, and shortages of engineers and scientists in advanced electronics and machinery. Unfulfilled defense orders already totaled $63 billion in early 1981, up 30 percent from 1980 and 80 percent since 1978,[33] and there is already a shortage of an estimated 60,000 skilled machinists.[34]

Finally, and most important of all, commercialization requires that new technology be transferable to commercial uses at relatively low cost. MITI sees to it that new technologies are diffused rapidly into the economy, and incorporated into countless commercial products. Japanese firms bid to participate in MITI projects, offering to absorb some of the cost of the research projects. Not only does this competitive bidding process help ensure that government subsidies are as low as are necessary to spur the private sector into action, but it also helps guarantee that Japanese companies will utilize the new technologies, because they already have a financial stake in them.

The advanced designs required by tomorrow's elaborate military hardware—designs incorporated into precision-guided munitions, air-to-air missiles, cruise missiles, night-vision equipment, and missile-tracking devices—will not be as easily applicable to commercial uses as were the more primitive technologies produced during the defense and aerospace programs of the late 1950s and early 1960s. Precisely because America's commercial semiconductor industry is not likely to be adaptable to defense needs in the years ahead, for example, the defense department has launched its own research and development program for the "chip of the future." In explaining the program, William J. Perry, then Under Secretary of Defense for Research and Engineering, told the Senate last year that while the Department has "an outstanding ability to direct technology resident in the defense industry to high priority programs . . . [it has] little ability to influence those companies whose sales are predominantly commercial. This is a serious limitation in the case of the semiconductor industry, whose products play a crucial role in nearly all of our advanced weapons

[32] James R. Capra, "The National Defense Budget and its Economic Effects," *The Federal Reserve Bank of New York Quarterly Review*, Summer 1981.

[33] Henry Kaufman, *The Potential for Conflict in National Policies and Financial Markets*, New York: Salomon Brothers, April 1981, p. 41.

[34] Hans Weiss, National Tooling and Machinery Association, remarks before the U.S. Senate Small Business Committee, July 1981, p. 2.

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systems." Mr. Perry went on to say:

> Therefore we have initiated a new technology program intended to direct the next generation of large-scale circuits to those characteristics most significant to Defense applications . . . . This program will ensure that the U.S. maintains a commanding lead in semiconductor technology and that this technology will achieve its full potential in our next full generation of weapon systems.[35]

Rather than encourage American commercial development, defense spending on emerging high technologies may therefore have the opposite effect over the long term, diverting U.S. scientists and engineers away from commercial applications.

The problems posed by the disjuncture between defense policies and economic needs are likely to loom larger in the next few years, as the defense buildup proceeds apace. Pursuant to President Reagan's vow to rearm America, defense spending is slated to jump nearly 15 percent, to $182 billion in Fiscal Year 1982 and $215 billion in FY 1983. In total, planned military spending will exceed $1.5 trillion over the next six years. This will profoundly affect several emerging industries. Between now and 1987, for example, defense spending for semiconductors is expected to increase by 18.3 percent, while commercial semiconductor purchases will increase by only 11.8 percent. A similarly divergent growth pattern is expected for computer sales (16.4 percent for defense, 11.8 percent for commercial purposes), engineering and scientific equipment sales (9 percent for defense, 5.6 percent for commercial purposes), and sales of communications technologies (11.6 percent for defense, 5.3 percent for commercial purposes).[36] Meanwhile, the Defense Department's share of government research and development outlays is expected to rise to over 60 percent in FY 1983.

In short, the United States has responded to the problem of its emerging industries—but inadvertently, and to the wrong end. Programs for emerging industries have suffered from the same inadequacy as programs for declining industries: because they have not been based on an agreement between industry and government to achieve positive economic adjustment, the programs have tended to be disconnected from the commercial strategies of competitive firms within the international economy.

[35] William J. Perry, Under Secretary of Defense for Research and Engineering, testimony in *Department of Defense Authorization for Appropriations for Fiscal Year 1980*, Hearings before the Committee on Armed Services, U.S. Senate, 96th Cong., 1st sess., April 6, 9, 10, 11 and 23, 1979, Washington: GPO, 1979, p. 2292.

[36] Estimates from Data Resources, Inc., reported in *Business Week*, February 8, 1982, p. 94.

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Thus, although the programs have profoundly affected industrial development, they have failed to promote economic adjustment. Indeed, they have often retarded it.

This is not to suggest that the goal of economic adjustment should have precedence over other realms of policy, such as national defense, which are oriented to different objectives. But other policies should at least be congruent with adjustment, and we should have the ability to recognize trade-offs and relationships among policies. It could be argued, for example, that national security depends as much on the health of the national economy as it does on defense expenditures, if not more so. To divorce these two sets of policies from one another therefore seems wrongheaded.

Why does the United States seem incapable of fashioning public policies that enable the domestic economy to adapt to changes in the world economy? Why do certain other nations seem better able to do so? The answer is complicated of course, and it is well to understand that a nation's relative economic adaptability depends on the interplay of many factors. But two factors seem to bear most directly upon a government's capacity to support rather than retard economic change. The first concerns the institutions through which adjustment policies are developed and executed. The second, the ideologies upon which the business-government relationship is based.

VI

The management of economic adjustment in all industrialized countries is complicated by the fact that declining industries typically have far greater political power than emerging ones. By virtue of the declining industries' size and age, whole cities or entire regions often have grown dependent on them—including a large number of suppliers, distributors, independent contractors, and service businesses, in addition to the industries' own employees and shareholders. These dependents represent a powerful force with well-established political connections. By contrast, emerging industries, almost by definition, are small and new. Although they may offer great potential for future jobs in the region, few people are now dependent on them for their livelihood. In political terms, a job lost is far more potent than a job not gained. Because of this, and also because many firms in emerging industries typically are so busy developing their products and markets that they have no time for politics, emerging industries are apt to have very little political clout.

This disparity in the political power of declining and emerging

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industries often makes it difficult for politicians to formulate policies to achieve adjustment rather than protection. Declining industries and their dependents are apt to prefer protection for the simple reason that adjustment subjects them to an uncertain future, while protection at least maintains the status quo for a time. Emerging industries rarely are able to counter this political preference.

Adjustment policies theoretically could be designed in such a way as to fully compensate declining industries and their dependents for the risks to which economic change would subject them, and thereby gain their political assent. But to execute such policies, government must be capable of marshalling information about the precise needs of the declining industries and their dependents, of negotiating an agreement with them in which the interests of emerging industries are preserved, and of delivering on that agreement. In all these aspects of industrial policymaking—acquiring strategic business information, negotiating adjustment agreements, and coordinating policies—the United States is sorely lacking.

Information. No agency of the U.S. government has overall responsibility for gathering detailed information about world market trends, the competitive strategies of our trading partners, and the long-term outlook for particular U.S. industries, segments and firms within world markets. Instead, the information is gathered piecemeal within the Commerce Department, the State Department, the Treasury, the Internal Revenue Service, the Securities and Exchange Commission, and the Federal Trade Commission, and in such broad generalities or irrelevant detail that the information is relatively useless for making industrial policy. For example, when the U.S. government was faced with pleas from the Chrysler Corporation to enact loan guarantees, there was no government agency to which the government could turn in order to evaluate Chrysler's position. Congress was forced to rely on a perfunctory study of the industry supplied by a private consulting firm.

American business managers have been reluctant to provide the government (or any other outsider, for that matter) with data about the overall competitive position of their firms. This reluctance has been due, in part, to their concern that inadvertent public disclosure of these data might forewarn competitors, suppliers, employees, creditors or investors about pending changes in the firm, and thereby jeopardize the firm's strategies. Managers of declining firms rarely want to admit that their businesses are in

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trouble for fear that they will thereby create a self-fulfilling prophecy; managers of growing firms rarely want to reveal their plans for fear that others will rush in to take advantage of the opportunities first. Thus, to the extent that the strategies of American firms are dependent on the tactic of surprise, information will not be forthcoming—except in extreme circumstances where a declining firm faces imminent collapse (as with Chrysler), or an emerging firm faces imminent loss of a large share of the market to foreign competitors (as with many semiconductor manufacturers). As we have seen, however, by that time protection in one form or another is typically the only public policy that can be invoked. Adjustment simply takes too long.

What are the alternatives? Short of altering the competitive strategies of American firms to be less dependent on surprise, there seems little hope of eliciting from the private sector the quality of information that industrial policymakers would need. One is struck, for example, by how readily Japanese, West German and French officials gain access to data from their domestic firms. Apart from the possibility that these governments are better able to maintain the confidentiality of the data they receive than is the U.S. government, and have thereby earned a greater degree of business confidence (a possibility that should not be too quickly dismissed), the only explanation for the far greater openness of foreign firms seems to lie in their business strategies, which depend less on tactical surprise and more on long-term investment and marketing than do the strategies of many U.S. firms.

But detailed information about business strategies and world market trends can also be generated through exhaustive investigation—relying on public documents, extensive interviews, and sophisticated interpolations and inductions based upon observable changes in the market. Top investment analysts in Wall Street's largest brokerage houses have used these techniques to become the business sleuths of America; they collectively influence the allocation of a substantial portion of private capital in this country on the basis of their knowledge of particular firms and industries. Their sophistication is unmatched anywhere in the U.S. government. But their equals are found in certain foreign bureaucracies, such as MITI and the West German Ministries of Economics and Technology. Even if the United States cannot generate data directly from its businesses adequate to support rational industrial policymaking, it could at least seek to develop a cadre of business analysts who would monitor the public consequences of declining and emerging industries.

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Consensus. The United States does not have institutions designed to negotiate adjustment policies among those who may be affected by them. Instead, industries and large firms maintain trade associations and specialized offices in Washington, which are staffed by public relations professionals, lobbyists, and lawyers. These people bargain on behalf of their clients in many public arenas—congressional committees and subcommittees, independent regulatory agencies, grant-making agencies in the executive branch, executive agencies that are responsible for fiscal and monetary policies, the federal courts, and the media. Although they implicitly trade upon past votes or campaign contributions, or the veiled threat to withhold these benefits in the future, they typically base their arguments for government assistance on the importance to the economy of maintaining the profitability of their industry or firm.

This bargaining has resulted in a hodgepodge of public policies bearing no direct relation to overall industrial health. For example, in 1980 the government spent five times more money on research and development for commercial fisheries than it did for research on steel; it provided over $6 billion in loans and loan guarantees to the shipbuilding industry and $940 million in loans and loan guarantees to the automobile industry; it gave $455 million in tax breaks to the timber industry but none to the semiconductor industry; and it provided over $5 billion in research and development subsidies for the nuclear power industry, but only $942 million for coal.[37] Thus far, the Reagan Administration has shown itself to be no less susceptible to special pleadings than its predecessors—providing the auto industry with a "voluntary" quota on Japanese imports, the savings and loan industry with a special tax break for "All Savers," and the cable television, railroad, and oil and gas drilling industries with highly preferential tax depreciations.[38]

In so vastly decentralized a system of bargaining it is relatively easy for industries and firms to impose costs on those who are unrepresented in the particular bargains—typically consumers, emerging industries, employees or communities. But it is also relatively easy to impose costs on other major industries that are apt to be bargaining in other forums. For example, the U.S. steel industry's protectionist "trigger price" system not only has cost

[37] See Magaziner and Reich, *op. cit.*, chapter 9.

[38] On the preference built into the 1981 Economic Recovery Tax Act, see R. Eisner and S. Bender, "Differential Impacts of Tax Incentives for Investment," presented at a meeting of the American Economic Association, Washington, D.C., Dec. 29, 1981.

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American consumers over one billion dollars annually in the form of higher prices for U.S. products that contain steel, but it has also penalized all the U.S. industrial purchasers of steel—manufacturers of automobiles, farm machinery, appliances and machine tools—who must now pay 25 to 35 percent more for the steel they use than their European and Japanese competitors. To some extent their plight is more serious than that of the American consumer, who can still purchase many foreign products made with cheaper foreign steel. The U.S. industrial purchasers of steel are rapidly losing ground in world markets to foreign competitors whose costs are lower, and at this point the decline may be irrevocable.

Rather than fight such protectionist measures directly, however, industries that bear the costs often find it politically easier to use a different bargaining forum in order to impose additional costs elsewhere in the economy. Thus, instead of seeking to reduce or eliminate the "trigger price" system—a strategy that would entail a direct confrontation with the U.S. steel industry—U.S. automakers have sought to improve their competitive position by gaining import quotas on Japanese automobiles. Similarly, the "trigger price" system has injured U.S. specialty steel makers—who produce stainless steel, steel pipes, and other custom steel items that are not included within the import protection—by inducing foreign producers of basic steel to switch to specialty steel production in order to maintain their foreign earnings. Instead of fighting the "trigger price" system directly, specialty steel makers are now lobbying to extend the system to specialty steel as well. In precisely the same manner, the U.S. semiconductor industry is now lobbying Congress for import restrictions on Japenese semiconductors; but American computer manufacturers, whose competitive position will be hurt by any such restriction, are reluctant to lobby against their sister industry.

The same "multiplier" effect can be seen across the U.S. economy: price supports or import restraints are imposed on basic commodities (say, cotton fibers); this protection increases the costs and reduces the competitiveness of industries that are dependent on the basic commodities (textile manufacturers); rather than fight the protectionist measure, these purchasers seek their own protection; this added protection in turn increases the costs and reduces the competitiveness of their industrial purchasers (apparel manufacturers), who in turn find it easier to gain additional protection for themselves than to fight the protection accorded their suppliers.

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The creation of a single bargaining arena for allocating the costs and benefits of adjustment would not remedy these problems entirely, but would at least provide government with the institutional capability of achieving a broad-based consensus about adjustment policies. Protectionist measures would probably be more difficult to elicit from government in the presence of industrial purchasers, emerging industries, and other groups on whom the costs of such measures initially would fall. By the same token, labor and management facing industrial decline would be in a position to negotiate with government a package of adjustment assistance designed explicitly to salvage their most competitive resources and to shift the rest to more profitable uses. Perhaps most important, the single arena could provide a focus for an ongoing national debate about economic change, and the appropriate allocation of the burdens and advantages of such change.

To some extent, this was the idea behind the establishment of a Special Trade Representative in the White House. But the jurisdiction of that office is far too limited, its powers too circumscribed and advisory, and the bargaining over which it presides too covert for the STR to become a forum for building a consensus about industrial policy. One has only to compare it with the well-developed bargaining arena in which West German industrial policy is formulated—involving industry, labor, financial institutions, and government at many levels of policymaking, and culminating in national bargaining over wage rates, selective credit policies, and adjustment—or with the broadly encompassing committee structure of MITI, to comprehend the scale, effort and visibility that is implied.

This is not to suggest that either West Germany or Japan provides the United States with an appropriate model. The relative ease with which a consensus about industrial policy has been achieved in both countries may have more to do with their recently feudal, and more recently totalitarian, histories than with any particular institutional design.[39] The United States is blessed with a highly contentious political system in which disorder, opportunism, and ad hoc arrangements abound, and in which

[39] Even Japan is not always successful in managing positive adjustment by means of "wholesale" bargains. To be sure, both Japan's Ministry of International Trade and Industry and its Economic Council, located in the Prime Minister's office, serve as forums for broad-based bargaining. But ministries that oversee particular industries, such as Post and Telecommunications, Health, or Fisheries, are as prone to the sort of protectionist policies that retard adjustment as is any U.S. congressional committee or agency that similarly has responsibility for a single industry. The simple lesson may be that, regardless of culture or overall government and business organization, government units that oversee only one industry inevitably are subject to "capture."

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hierarchical, mass organizations have never taken firm root. But this does not rule out the possibility of a more open, more public debate about industrial policy, in which certain bargains might be struck "wholesale" in place of the extensive, covert "retailing" that now predominates.

Coordination. The third institutional failing has much in common with the other two. Just as economic information is gathered piecemeal, and industrial policies are formulated in countless private bargaining arenas, U.S. policies that affect industrial development are administered haphazardly, with little or no coordination among them. Tariffs, quotas, marketing orders, price supports, loans and loan guarantees, special tax rulings, antitrust actions, direct subsidies, health and safety regulations, price and entry regulations, government contracts, government research programs, public works programs—each is undertaken in blissful disregard for the others, without any understanding of the aggregate effects of all programs on a particular firm or industry.

Coordination is imposed only when programs directly conflict. But the institutions that are called upon to reconcile these conflicts are 94 federal district courts, ten appellate courts, and one Supreme Court, which are ill equipped to understand or respond to the dynamics of international competition. Nor is this perceived to be their role.

Coordination need not imply control. Government administrators should have a degree of discretion in how they fulfill their disparate mandates. But at least they should be aware of other government policies that affect and interact with their own. How can those who administer the federal antitrust laws, those who administer import restraints, and those who administer export subsidies fail to consider the critical relationships among their programs? How can administrators of defense contracts and administrators of labor retraining and relocation programs fail to consider how their activities affect each other? The U.S. government must gain an institutional capacity to view industries as a whole, and to fashion policies that complement and support one another. Regardless of whether this capacity is lodged in the Office of Management and Budget, in the Congressional Budget Office, in the Treasury, or in a separate entity, it is critical to the formulation of an intelligent overall industrial policy.

VII

Before we can achieve the political consensus needed to institutionalize such an industrial policy in America, we must change

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the way we view the problem. Our collective inability to organize ourselves for economic change stems largely from ideological blinders which severely limit our vision, forcing us to engage in an endless debate over the relative merits of two artificial categories: the "free" market, or centralized national "planning." The real choice is between adjustment or protection.

Many Americans cling to the notion that government should refrain from interfering with the market. They may acknowledge that the market is itself dependent upon government institutions that establish property rights and liability rules and determine what contractual provisions are to be enforced. But they argue that these are merely neutral "rules of the game" which do not selectively distort price signals, and are therefore distinguishable from more active intervention.

This preference for free markets may be justifiable, but it is hardly realistic in a democratic system within which economic policies are the products of political compromise. Every industry in America is deeply involved with, and dependent upon, government. The competitive position of every firm in America is affected by government policy. No clear distinction exists between private and public sectors within this or any other advanced industrialized country; the two sectors are completely intertwined. Adjustment and protection are the choices simply because they are the only ones that are politically acceptable.

The tenacity with which the free market ideal is maintained illustrates the power of ideology over political reality. The vast numbers of tariffs, quotas, "voluntary" export agreements, and bailouts for declining businesses that pervade our economic system are viewed as isolated exceptions to the government's preferred role of neutrality, while our defense-related contracts, targeted tax breaks, and assorted subsidies for particular industries are regarded as somehow unrelated to industrial development or to the dynamics of the market. We rail against subsidies offered by foreign governments to their emerging industries but then fail to acknowledge the overarching importance of U.S. defense and aerospace projects to the development of our emerging industries. We demand that foreign governments reduce the procurement preferences they give to certain of their domestic industries, but we then demand that our own large, regulated manufacturers—like AT&T—purchase from U.S. producers.[40]

[40] Soon after Nippon Telegraph and Telephone recently agreed to reduce its non-tariff barriers to foreign suppliers, AT&T announced, to much congressional acclaim, that it would not award a large fiber-optics contract to Fujitsu, the lowest bidder, but it would choose

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This disjuncture between the ideology and politics of industrial policy makes it doubly difficult for policymakers to choose adjustment over protection. So long as government assistance to business is perceived as being somehow illegitimate, regardless of its purpose or outcome, the government is forced to respond to each request for assistance as if it were a special case. Industry participates in the charade, disguising its long-term government strategies within a series of discrete proposals embedded within particular tax laws, appropriations, agency regulations, court rulings, and executive orders. Because neither government nor business can admit to the intimacy of their relationship, both sides treat it as an illicit affair, hiding it from public view and thereby thwarting any attempt to give institutional legitimacy to those aspects of the relationship that promote adjustment. As we have seen, absent an institutional capacity for making explicit adjustment policies, protection will be the most common outcome.

Lacking any clear idea about the nature of adjustment or the need for government policies to facilitate it, public discussion of these issues is prone to caricature. The specter is conjured up of national planning in which bureaucrats substitute their judgment for that of the market, directing the flows of capital to what they perceive to be the future "winners" of industry and away from the "losers." Our collective inability to differentiate between this vision and the realities of adjustment—through which government seeks to *promote* market forces rather than to retard or supplant them—has stymied political dialogue.

Our economists meanwhile comfort themselves with the assumption that any inefficient allocation of human or capital resources will eventually be corrected as the economy moves toward a new "equilibrium." They fail to recognize that "equilibrium" is a vanishing mirage on a constantly shifting horizon. The process of adjustment is the stuff of economic and political history. There are many routes that the adjustment can take—some far easier, more socially equitable, and more efficient than others.

For all these reasons, it is difficult for America to think strategically about its economic development. The only model of a national strategy which we possess derives from national defense. It is hardly surprising that many adjustment policies over the

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Western Electric instead. An AT&T spokesman explained that "[w]hen a finalist turned out to be a foreign company, we and others became worried about the national interest and national security because such a vital communications link was involved." *The New York Times*, December 12, 1981, p. 33.

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years have been presented as aspects of national security. The Eisenhower Administration's highway building program—called the National Defense Highway Act of 1956 and justified on national security grounds—provided an infrastructure that shaped postwar industrial development, particularly for the automobile and housing industries. Similarly, educational programs and loans embodied within the National Defense Education Act spurred great advances in our store of "human capital," which in turn contributed to our economic development well into the 1960s; once again, the effort was justified by the rhetoric of national security.

Our assorted progams—providing, at various times, price supports, loan guarantees, tax breaks, and direct subsidies to oil, coal, nuclear and synthetic fuels—have also been perceived as necessary to our national security. And our bulwark of tariffs and orderly marketing agreements has been justified as being necessary to national security, lest we grow dependent on foreign sources of "key" supplies, like steel, which would be critical to a war mobilization.[41]

This reasoning has impoverished the political dialogue, blinding us to long-term economic issues that require strategic thinking. It also has distorted industrial policy by giving disproportionate weight to mercantilist goals, such as gaining "independence" in energy and strategic materials, and inadequate attention to the problems of coordinating our industrial policies with those of other nations so as to best contribute to world economic development.

What of the future? There is reason to think that we will overcome these ideological traps, largely because the American business community is beginning to understand that it desperately needs the government's aid in helping it to adjust to the new demands of the world market. Protection does not work for long, and the American public will not tolerate the higher and higher levels of protection that would be required to maintain the status quo.

America's high-technology companies will be the first to propose major reforms, since they collectively have most to gain from

[41] At this writing, senior officials in the Reagan Administration are considering the imposition of a quota on imports of 64K RAM chips from Japan. The move is being proposed by the Defense Department, on grounds of national security; the Department fears that Japan's recent penetration of 70 percent of the U.S. market for 64K RAMs is threatening the U.S. semiconductor industry, and could leave the military vulnerable if war broke out. By this reasoning, significant import penetration into any U.S. market would justify a quota, since the military is dependent on everything from denim to shampoo. See *The Wall Street Journal*, February 5, 1982, p. 6.

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adjustment and most to lose from protection. They are also the most intimately aware of the importance of public policies which promote adjustment, because they compete directly with firms that are the beneficiaries of such policies. Under their leadership the rest of the American business community will move toward a constructive dialogue about these issues with government, labor and the general public.

Several state governments also will take the lead in designing adjustment policies that match the needs of high-technology industries. California is now launching a $22-million package of subsidies aimed at invigorating the state's high-technology firms, including a $7.6-million research program at the University of California;[42] both Minnesota and North Carolina are financing large microelectronics research centers; Ohio is establishing a $5-million fund to aid high-technology companies.

The danger, of course, is that all this will come too late, by which time America's emerging industries will have lost the opportunity to compete actively in the world market, and America's declining industries will have become so dependent upon protection that adjustment will be exceedingly painful for many of our citizens. The delay will not be attributable to failures of implementation; adjustment policies could be effectuated relatively quickly. The delay will be due rather to failures in our politics and ideologies. It will take time to reformulate political institutions and bring them into conformance with reality. But do we have the time?

[42] *Investment in Economic Strength*, Sacramento, Calif.: State of California, 1981, pp. 9–11.

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Karl-Eugen Wädekin

SOVIET AGRICULTURE'S DEPENDENCE ON THE WEST

Moscow again is buying American grain, in spite of the resentment which undoubtedly has remained after the partial embargo of January 1980. Moscow simply cannot help but continue buying great quantities of grain, while the United States remains the biggest producer and exporter of grain, and in addition a less expensive supplier than most others. About 20 years ago such a situation was unthinkable. It was only in 1963–64 that the Soviet Union for the first time after World War II contracted for big grain purchases in the United States, and only in 1972 that it became a regular buyer of increasing quantities. It is a fact that by now the Soviet Union produces 69 percent more grain than it did at that time (five-year average of 1976–80 compared to 1956–60), while its population in 1980 was only 23 percent more than in 1960.[1] And yet it has turned from a net exporter of grain into a net importer.

What has changed during these two decades? How is it possible that the Soviet Union has almost exactly the same area of arable and permanent crop land per head of the population as has the United States, namely 0.89 hectares (2.2 acres), and cannot feed its population adequately, whereas U.S. agriculture not only supplies the population with one of the richest diets in the world but in addition supplies more food for export than any other country?

To attribute this contrast exclusively to the inefficiencies of the Soviet system would be as much a misleading simplification as to

[1] Numerical data in the present article are from the official Soviet statistics (*Narodnoe khoziaistvo SSSR* and *SSSR v tsifrakh*) if not otherwise indicated or easily accessible for the general reader.

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say that disadvantages of climate and soil are the sole explanation; there can hardly be doubt that neither the sociopolitical system nor nature alone can be held responsible. Simply, it is futile to try to quantify neatly one or the other kind of factor, if only because they are interrelated and often enhance each other.

More meaningful is the question: What can be expected from Soviet agriculture under the given circumstances for the foreseeable future of, say, the next five or more years? A closer look at the specific difficulties of the present helps us to arrive at a balanced evaluation from this point of view and—of special interest to the United States—to assess the likelihood of Moscow's remaining one of the biggest customers for American grain.

II

First of all, one has to abandon a possible misconception that the Soviet consumer goes hungry. If there are regions or social groups in the U.S.S.R. whose people eat less than a fully adequate diet, their proportion nowadays—as distinct from the 1950s—surely is not greater than in most other countries of a comparable size and stage of development. In terms of calories, the average Soviet citizen consumes as much per head and per year as the average West European, and only very slightly less than the North American. He gets significantly fewer calories of animal origin than his West European counterpart, it is true, not to speak of the North American, but the share of animal products in total caloric consumption—27 percent according to Food and Agriculture Organization (FAO) data for 1975–77—still is up to almost all physiological needs, although the supply of proteins of animal origin is deficient in supplying certain essential amino acids. (That share was only 22 percent during 1961–65.) It is not the physiological needs which remain unfulfilled, but the increased demand mainly for animal products and also for other more refined food.

For the most part, this demand is generated by rising income as a consequence of industrialization, urbanization and an economic and social policy which has been forced, for a number of reasons, to take into account the population's aspirations for a better remuneration of their toil. People's needs and aspirations are not the same, but sometimes the latter may be more compelling for the politician. And the aspirations have risen much faster than population numbers. The rise is enhanced by the fact that the part of Soviet industry producing consumer goods does not meet the demand for such goods in assortment and quality, although partly in quantities (some of which remain unsold), and that the

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services sector equally is not up to the increasing and more refined demand.

For these reasons, and because in absolute terms Soviet average incomes are still low compared to those of Western countries, the income elasticity of demand for the better food is unusually high in the U.S.S.R. Although a reliable calculation is not possible in a "market" with limited choices for the consumer, some put this elasticity at a coefficient of 0.8—that is, for every additional one percent of income, the Soviet citizen wishes to increase his expenditure for the better kinds of food by 0.8 percent.[2] According to the official Soviet statistics, total monetary wage incomes per head of the population (including the collective farmers) had risen by 207 percent (i.e., more than threefold) by 1980 as compared to 1960, and the population number by 24 percent. Even after the income increase is adjusted for hidden inflation, these figures suggest that the overall demand for better food must have risen close to threefold since 1960.

Meat being in higher demand than food in general, the demand for the former must have more than trebled. During 1961–80, meat output has risen 73 percent (milk output 47 percent, eggs 147 percent). This expansion is far less than that of demand, even if it is admitted that the latter's calculation is rather crude. Total feed supplies have increased by 43 percent since 1965 (for that year a figure is available), and by a roughly estimated 60 to 70 percent since 1960.[3] This includes feedstuff imports, without which the increase of feed supplies would have been some ten percentage points less. Taking into account the population increase on the one hand, and the declining direct human consumption of grain per head on tne other hand, one finds that the growing grain output was practically all used for feed.

The underlying data are too crude to reach more precise conclusions, but they demonstrate clearly enough why the demand/supply situation for meat and other animal products has deteriorated so much since 1960, when the situation was already tight. There was appreciable improvement after Stalin's death. The stagnation applies to the later part of the period since then.

It is a striking fact that the above figures do not reveal a marked

[2] To clarify the arithmetic significance of this, if a Soviet citizen originally had an income of 100 rubles over a given period and spent 40 rubles of this for food, an increase of income to 110 rubles would mean the spending of an additional 3.2 rubles for food (0.8 times 40). In most societies at the overall industrialization level of the Soviet Union, increased income directed to food (a basic essential, of course) would be significantly less.

[3] For Soviet data on feed consumption since 1965, see *Narodnoe khoziaistvo SSSR v 1980 g.*, p. 253, and *Sel'skoe khoziaistvo SSSR*, Moscow, 1971, p. 344.

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improvement in feed conversion ratios. The change is even less if one uses the separately published COMECON (or CMEA) statistical annual, covering the whole Soviet economic bloc; this shows, for the Soviet Union, gross total production in 1980 in the "livestock sector" only 60 percent more than in 1960, instead of the 73 percent increase reflected in Soviet meat statistics.[4] (As livestock production was down three percent in 1980, one arrives at a slightly better picture for 1965–79.) In other words, Soviet livestock seems to need almost as much feed per unit of output as it needed 20 years ago. This is in striking contrast to what can be observed in Western agriculture, where American hogs in 1960 ate 4.2 pounds of feed units for gaining one pound in live weight, while by 1980, due to improved feeding methods, they needed only 3.85 pounds; for beef cattle, the figures (roughage included) were 9.1 pounds and 7.1 pounds respectively. For poultry these figures were even more spectacular: 4 pounds in 1960, 2 pounds in 1980. The improvement was similar in all Western countries.

A few published Soviet data on feed conversion reveal an amazingly unfavorable ratio. There was a definite improvement during the first years after Nikita Khrushchev's removal (October 1964), but since then the ratios have deteriorated again, except for slow improvement in pig feeding.

TABLE I

FEED CONVERSION RATIOS OF SOVIET LIVESTOCK ON COLLECTIVE AND STATE FARMS

(Oat units consumed per unit of output or gain in live weight)

	average 1962–65	*average 1966–70*	*1979**
Milk (output)	1.6	1.4	1.5
Cattle	12.2	11.4	13.1
Pigs	11.9	9.4	9.1

* 1979 data include interfarm enterprises.

SOURCES: *Sel'skoe khoziaistvo SSSR*, Moscow 1971, p. 344, and *Vestnik Statistiki*, no. 9, 1980, p. 79.

These data require some adjustment in order to arrive at realistic comparisons with U.S. or Western data.[5] After such an

[4] *Statisticheskii ezhegodnik stran-chlenov SEV 1980*, Moscow, 1981, p. 191.

[5] The "feed conversion ratio" is a numerical value which indicates the ratio of gain in live weight or output of specific animals when fed given quantities of certain feeds, whether measured in pounds of feed per pound of weight gain (or milk produced, etc.) as in the United States, or in kilograms per kilogram of weight gain as in the U.S.S.R. It is important, though, to note that in the U.S.S.R. the common denominator for all types of feed is the "oats unit," representing the nutritional energy of one kilogram of oats of average grade (approximately 1,400 calories). In the West, the calculation of feed units varies. In West Germany, it is often the starch content that has served as the basis for calculating the grain unit and, derived from it, the nutritional values of grains fed. Other countries use the barley unit or other measures for

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adjustment, the above 1 to 9.1 ratio that obtained for pigs in the Soviet Union in 1979 may come close to a 1 to 7 corn ratio under the statistical methods used in the West, and with some proteinic feedstuffs being added to the ratio. Even so, the feed conversion ratio for pigs is almost double those of farms in the Western highly industrialized countries. In other words, for producing an additional 100 pounds of pork (live weight), Moscow has to produce or import not 350 or 400 pounds of corn, as Japan or West Germany have to, but up to 700 pounds and some protein feed in addition. With Western feed conversion ratios, Soviet grain imports could be roughly halved! True, the U.S.S.R. also imports great quantities of wheat, but essentially it imports feed grains, as the imported wheat merely substitutes for low-grade Soviet wheat used for feed.

There are several reasons for this poor Soviet conversion ratio. First of all, the Soviet Union lacks protein feed. With slowly improving herds, it becomes more necessary than before to supply adequate quantities of proteinic feedstuff for bringing the biological potential of the animals to bear. Moreover, the availability of protein-rich forage and dry roughage has stagnated since 1965 (and very likely also before, but there are no earlier data), while the share of grain in total feed supplies (in oat units) has risen from 22 percent in 1965 to 30 to 31 percent during 1978–80. In absolute terms, the quantity of grain fed has more than doubled during the same 15 years.

To compensate for the declining percentage of forage and dry roughage and increased quantities of grain fed, protein additives should be more than doubled. It is therefore not surprising that Soviet exports of oilseed, meal and cakes have practically ceased

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the same purpose. For example, hogs on average West German farms nowadays consume 3.5 to 4.0 kilograms of grain per kilogram of gain in weight. For the convenience of American readers, this article used ripe corn as the basic feed unit for comparison. An oats unit equals only 0.82 to 0.85 corn units in starch or energy content (or conversely, an oats/corn feed value ratio of 1 to 1.34) varying slightly depending on the evaluation method used. The U.S. Department of Agriculture in its *Agricultural Statistics, 1980* (p. 57) also has the "equivalent feeding value of corn" as a measure, but applies it to total feed consumed per unit of production, i.e., includes raising piglets and breeding sows. A truly exact and, at the same time, generally accepted comparison is not possible. Reports on feed conversion data in American publications frequently omit to mention that the calculations in the United States are based on feed units containing certain additives or, more exactly, mixed feed.

It has also to be pointed out that the data on Soviet grain procured (as distinct from total output in "bunker weight," described in footnote 8 below) are controlled by the state procurement agencies as to net weight and quality, whereas the farms, which probably keep the lower quality grain as their farm-produced concentrate feed, are unlikely to account for these factors in their reports on grain fed, because otherwise their grain production and consumption reports would be contradictory, to the farm's disadvantage. Some theft on the farms, whose work force privately also raises livestock and needs feed, is likely to play a role in addition.

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altogether, and imports of these commodities have greatly expanded, especially so as fish meal has become a rare commodity. Soviet oilseed imports jumped from an annual average of 50,000 metric tons in 1966–69 to 768,000 metric tons in 1973 and 1.3 million metric tons by 1979.[6]

Second, among other factors pressing on the feed conversion ratio, the state of the premises for livestock on collective and state farms has to be mentioned. Many do not really protect from the winter cold that prevails in most of the country. So during part of the year the animals utilize feed for keeping up their body temperature rather than for gaining in weight.

Third, feed supplies on farms vary in quantity and quality, depending on irregular supplies from the state-owned mixed feed industry and transport system and on the frequent shortage of on-farm resources. Thus, Soviet animals receive less feed, and of lower quality, per head and per year than their Western counterparts, but consume more per unit of output.

Fourth, many of the animals are of mediocre or inferior breed, i.e., have a low productivity potential. Under these circumstances, a Soviet hog takes eight to ten months, in some cases more than a year, to get finished for slaughter, and not five to six months as on a good Western farm. In 1980 Soviet cattle were delivered for slaughter at an average weight of 350 kg (772 pounds)—361 kg for the best year, 1978—as compared to 1,000 to 1,100 pounds for an American beef steer. Soviet cows yield 2,200 to 2,300 kg (4,850 to 5,070 pounds) of milk per year, as compared to an average of 5,386 kg (11,875 pounds) for American cows.

One has also to mention the fact that Soviet animal production still needs much manual labor, so that the number of working hours expended directly on the collective farm production of 100 kg (220.5 pounds) of gain in weight is 55 hours for cattle and 39 hours for hogs (42 and 20 hours, respectively, on state farms). The comparable figures in the United States would be 3.1 hours for cattle and 1.3 hours for hogs. In other words, on the Soviet large-scale collective farms two fully employed workers (not to speak of overhead labor expenditures) are needed to produce some 100 hogs for slaughter. This labor force consists to a great extent, especially in dairy farming, of elderly people, who are paid low wages and tend to be more interested in the well-being of their own livestock at home than in that of the public farm. Frequent

[6] According to *Agricultural Situation USSR, Review of 1980 and Outlook for 1981*, supplement to *World Agriculture Situation-24*, U.S. Department of Agriculture, Economics and Statistics Service, Washington, D.C., 1981, p. 46.

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TABLE 2
OUTPUT OF BASIC AGRICULTURAL PRODUCTS IN THE USSR, 1961–80
(million metric tons, five-year averages)

	1961–65	*1966–70*	*1971–75*	*1976–80*		*1981–85*	*1981*
				planned	*actual*	*guidelines*	
Grain and legumes ("bunker weight")	130.3	167.6	181.6	215–220	205	239	approx. 165*
Potatoes	81.6	94.8	89.8	102	82.6	89.1	72.0
Sugar beet	59.2	81.1	76.0	95–98	88.4	100.0	60.6
Sunflower seed	5.1	6.4	6.0	7.6	5.3	6.7	4.6
Seed Cotton	5.0	6.1	7.7	8.5	8.9	9.2	9.6
Meat (including fats and offal, slaughter weight)	9.3	11.6	14.0	17.3	14.8	17.1	15.2
Milk (fresh milk in standardized butterfat content)	64.7	80.6	87.4	94–96	92.6	98.1	88.5
Wool (unwashed, accounting weight)	0.36	0.40	0.44	0.47	0.46	0.47	0.45
Eggs (billion piece)	28.7	35.8	51.4	58–61	63.1	72.1 ("at least")	70.9

* Author's estimate; no Soviet figure published.
SOURCES: *Narodnoe khoziaistvo SSSR v 1980 g.*, Moscow 1981, p. 201-02; 1981-85 guidelines according to *Ekonomika Sel'skogo Khoziaistva*, no. 12, 1981, pp. 4 and 7; for 1981: *Sel'skaia Zhizn'*, January 24, 1982 (annual statistical report).

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breakdowns of energy supply, which on the more mechanized farms can create sizable losses, are another specific feature of Soviet livestock farms.

III

The growth of Soviet gross agricultural production during the past decade was quite respectable by international standards, but not spectacular. FAO indices in constant prices put it at 120 for 1977–79 (1969–71 = 100), which is more than for Western Europe (115), but less than for the United States (123). However, one has also to take into account that West European agricultural policy has not primarily been directed at increasing output, whereas American policy received a new growth impetus with the expansion of foreign markets since 1972–73, not least by Soviet purchases. In contrast, Soviet policy has for decades been aiming at output growth, almost irrespective of cost. Therefore, what is surprising is not that growth was achieved in Soviet agriculture, but that it was not faster. In this overall setting, Soviet animal production has grown more than crop production, but its share in total gross production of agriculture is still very low—55.2 percent of total value on the average for 1976–80, as compared to 52.6 percent during 1966–70.[7]

Table 2, opposite, demonstrates the development for a few basic products. As to the most important of these, grain, it has to be borne in mind that the data are in "bunker weight," to which a discount factor of 15 to 16 percent has to be applied in order to make it comparable to Western grain statistics.[8]

Cotton and eggs represent the two "success stories" in Soviet agriculture, and sugar (up to 1979) also comes out fairly well. Two qualifications have to be added, however. The growth in Soviet cotton output, which is produced exclusively on irrigated land in Transcaucasia and Central Asia, has been attained by tapping the river water resources to such a degree that without

[7] Valued at 1973 constant prices, as an average of prices actually received. The Soviet data contain some double-counting of feed, seed, etc., but as the shares of the crop and the livestock sectors are roughly equal, the double-counting does not sizably affect the shares as such.

[8] "Bunker weight" is the weight established on the farm or at the procurement point before drying, cleaning and storing. It contains a lot of admixtures, impurities and damaged grain, and does not account for losses during subsequent storing and transporting, including theft, which are not exactly known but must also be sizable. The U.S. Department of Agriculture's estimate of such "dockage and wastage" runs between 10 and 15 percent and seems on the low side. At any rate, the necessary discount percentage may vary very much according to a given year's weather and other harvest conditions. (The present writer has put forward his estimated discount factor in greater detail in the OECD publication *Prospects for Soviet Agricultural Production in 1980 and 1985*, Paris, 1979, pp. 56–61, and in the forthcoming second edition of that publication, where he now finds the likely range slightly higher rather than lower.)

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redirecting Siberian water to Central Asia at astronomic cost, the future ecological consequences seem rather alarming. As to sugar beets, it has repeatedly been explained in the Soviet specialized press that their average sugar content is declining. In fact, Soviet industrial beet sugar production (excluding imported sugar) was only 7.3 million metric tons in 1979, and has been more or less stagnating since 1965.

For meat, it has to be added that the standstill occurred after 1975, whereas before that year the output growth was impressive. Without the broiler industry, which together with egg production has rapidly expanded, meat output would be more than two million tons less at present.

The picture has become gloomy during 1979–81, with three very disappointing harvests in a row. Not only grain, which used to receive most of the attention, but also other crop output, instead of increasing, showed a decline against the 1976–80 average. It may be inferred that non-grain feed, for which no output statistics are published, fared no better. As a consequence, meat and wool production continued stagnating, while milk output went down (in spite of rising cow numbers, i.e., with yield per cow deteriorating still more). Only egg and broiler production continued to grow—on imported feed. On the whole, the aggregate output of Soviet agriculture (in constant prices) declined by two percent in 1981, and by an overall 7.5 percent since 1978, while population increased by 2.5 percent during those three years.

Soviet crop production is known for its great annual fluctuations. As it accounts for almost half of overall agricultural output, and as the feed it supplies greatly influences animal production, the annual fluctuations of agriculture as a whole are also greater than is usual in other countries. Although parts of the Soviet Union are located in regions of subtropical, often irrigated farming, and others suffer from a cold continental climate, most of Soviet crop farming is conducted in moderate northern zones. To a great extent these may be compared not to U.S. but to Canadian conditions, also in that large stretches have a dry climate with considerable temperature contrasts between summer and winter.

The predominance of grains is clearly visible from Table 3 below on sown areas in the Soviet Union, especially if one takes into account that most of the summer fallow is located in grain areas. Fodder crops (annual and perennial grass, silage and green corn, and fodder beets) come next in sown area occupied, while the third important group is that of the industrial crops, among which sugar beets and oilseeds account for more than half the

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area. The question of summer fallow, which is of great importance in the very large areas of steppe grain dry farming, has been much disputed in the Soviet Union. Its area has varied greatly up to most recent times, not to speak of the anti-fallow campaign during the last years of Khrushchev's reign (1960–63).

TABLE 3
SOWN AREAS OF THE SOVIET UNION
(million hectares)

	1960	*1965*	*1970*	*1975*	*1980*
All grains and legumes	115.6	128.0	119.3	127.9	126.6*
including					
winter wheat	(12.1)	(19.8)	(18.5)	(19.6)	(22.6)
spring wheat	(48.3)	(50.4)	(46.7)	(42.4)	(38.9)
barley	(11.0)	(19.7)	(21.3)	(30.9)	(30.1)
Industrial crops	13.1	15.3	14.5	14.1	14.6
Potatoes and vegetables	11.2	10.6	10.1	10.1	9.2
Fodder crops	63.1	55.2	62.8	65.6	66.9
Summer fallow	17.4	14.7	18.4	11.2	13.8

* An estimated 126–127 million hectares in 1981.

Among the grains, wheat occupies the leading position, with the spring wheat area dominant for climatic reasons (but with actual output at present divided almost equally between spring and winter wheat). The sheer size of the wheat area—its output accounts for roughly half of the Soviet grain harvest—testifies to much of it being used for feed. The spectacular expansion of the area under barley is unmistakably due to the rising demand for feed grain. It is similar for oats, which came under a near-ban in Khrushchev's time but from their 1964 low of 5.7 million hectares have regained a respectable position with 11.8 million hectares by 1980.

Most but not all of the fluctuation in the grain area is due to contraction or expansion of summer fallow. While in recent times fallow in dry regions has been considered reasonable again (which it is), expansion of the grain sown area in more humid parts of the country has been advocated, though so far apparently not much applied. At any rate, the grain area sown in 1980 and 1981 was the smallest since 1972, apparently not only because of cold spells in spring sowing time.

When one puts these data alongside recent grain harvests in the Soviet Union—which were low in 1979, 1980 and 1981—one must

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raise the question whether Soviet planners have adequately weighed the possibility of increasing feed output and reducing the fluctuations in grain harvests by expanding the area of summer fallow and significantly reducing the amount of land sown in grain.

The prewar grain area (110.7 million hectares in 1940 on the almost identical territory) was regained and surpassed, after a 1945 low of 85.3 million, only through the great virgin lands campaign of 1954–56, when in the regions concerned the sown areas expanded by 36 million hectares. The subsequent setbacks and the expansion of the silage and green maize area under Khrushchev made it again decline to 128 million hectares in 1965. Up to 1971 there seems to have been a deliberate further reduction of the grain area, which is only in part to be explained by the expansion of summer fallow. Strikingly, during 1966–71 the grain output increased more and fluctuated less than ever before or after. Since then the area sown in grain expanded again to an all-time high in 1977 (130.4 million hectares). Obliquely, Leonid Brezhnev at the July 1978 Plenum of the Central Committee admitted a possible reduction up to 1985,[9] which came true faster than expected with the decline during 1979–81 (see Table 3).

It has been the present writer's contention for a number of years that a further reduction to 115 to 120 million hectares—in part by introducing a 25 to 30 percent share of clean summer fallow in the dry steppe regions—would do nothing but good to Soviet grain production and its cost. More soil moisture would be accumulated in dry areas, weeds would be fought more successfully, and with less of the marginal land being sown each year, the annual fluctuations would be smaller. Moreover, those inputs which notoriously are in short supply in Soviet agriculture—fertilizer, herbicides, combine harvesters and transport capacities—would be concentrated and thereby used more effectively on the remaining grain areas. For these reasons, the absolute output quantity would not necessarily be less, as such concentration would increase the hectare yields and diminish the harvesting losses.

As the sown area reduction would occur mainly in the dry regions, it would affect low-yielding land. Thus, in Western Siberia the average hectare yield of grains during 1976–79 was 1.22 metric tons;[10] what is worse, this was a decline in comparison to 1971–75,

[9] See the author's interpretation of Brezhnev's veiled forecast in *Prospects for Soviet Agricultural Production*, *op. cit.*, p. 46.

[10] One ton per hectare is 14.9 bushels of wheat per acre and 18.6 for barley, the two main grains in Western Siberia.

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when the average grain yield there stood at 1.31 tons. The corresponding figures for Eastern Siberia are 1.01 (1976–79) and 1.18 (1971–75) tons.[11] It may be assumed that the figures are similar for some grain areas between the Ural mountains and the lower Volga. Kazakhstan witnessed a rise of hectare yields, it is true, but in absolute terms they are low: 1.08 tons in 1976–79, and 0.99 tons for the preceding quinquennium. Introducing within the Siberia and Kazakhstan total areas of 43 million hectares (as of 1975) some seven million more hectares of summer fallow would reduce the total grain output of those regions by about eight million tons. Yet, on the other hand, this would very likely increase the yields and reduce the post-harvest losses on the remaining 36 million hectares by four to six million tons. Even if a certain shortfall of two to four million tons remains, it should be compensated for by greater steadiness of yields and lower capital and labor cost per unit of output.

Moreover, some of the land might fully return to perennial grasses and be used for pasture or hay. After all, raising the hay yield, which in Western Siberia is no more than 0.56 tons per hectare and in Eastern Siberia 0.45 tons per hectare (or 0.28 and 0.2 tons of oats units),[12] may well be more rewarding. Improvement and better utilization of the ten million hectares of hay meadows in Siberia and raising the hay yield by 0.2 tons per hectare (0.1 tons of oats units) would yield one million tons of oats equivalents, not to speak of better utilization of the immense stretches of low-yielding meadows in Kazakhstan.

The idea of increasing the feed output by reducing the grain area makes sense because the grain area has been over-expanded, and fallowing and roughage production neglected, in the recent past.

IV

The next question to consider is the problem of capital and labor inputs in Soviet agriculture, including comparisons with Western practices. Nearly all capital and about three-fifths of the labor is expended on the large collective and state farms, and therefore should—in theory—work under great economies of scale.

It is generally known that most of Soviet agriculture is conducted on very large farms, of which those in the dry grain

[11] Although such regional data are no longer published in Soviet statistics, the above were communicated in an article in *Ekonomika Sel'skogo Khoziaistva*, no. 7, 1981, p. 45. Data for West and East Siberian sown areas are available only up to 1975.

[12] *Ibid.*

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farming regions have up to 100,000 acres, and in some cases even more. Besides the collective farms and the state farms proper (*sovkhozes*), which together produce more than two-thirds of the agricultural gross product, there are institutional and other state farms, which as a rule are smaller and constitute a negligible sector, and the private plots (discussed below). Average Soviet farm sizes have often been dealt with, therefore only a few basic data on that subject are given in Table 4 below.

TABLE 4
AVERAGE FARM SIZES, 1965 AND 1979

	Collective farms		*State (sovkhoz) farms*	
	1965	*1979*	*1965*	*1979*
Total number of farms	36,300	26,000	11,700	20,800
Per farm:				
sown area (hectares)	2,900	3,700	7,630	5,360
average annual number of workforce	512	527	637	472
socialized fixed assets and turnover capital (thousand rubles)	1,166	4,140	n.a. (more than in collective farms)	n.a.

SOURCE: *Narodnoe khoziaistvo SSSR v 1979 g.*, pp. 285–86, 301.

The guidelines for the 1981–85 plan and the speeches at the February 1981 Party Congress, which approved those guidelines, were not quite unambiguous as to what share of total investment of the Soviet economy is to go to agriculture.[13] Yet as a share it is unlikely to change much against previous years, either in the negative, because agricultural output is badly needed, or in the positive, because the Soviet economy hardly can afford more. Agriculture "in the whole complex of work" (i.e., including some of its backward and forward linkages, a category often used in Soviet plans and statistics) received 26 percent of total Soviet economic investment during 1971–75, 27 percent during 1976–80, and is planned to get the same share during 1981–85. This seems incredibly high, yet one has to bear in mind that the overall production—and thereby investment—capacity of the Soviet economy is much below that of Western industrial countries. Moreover, Brezhnev at the November 1981 plenary session of the Central Committee pointed out that the forward and backward linkages will get an increasing share, as compared to agriculture proper.

[13] See the discussion in *Osteuropa*, No. 9/10, 1981, p. 839.

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Recalculated per hectare, capital equipment and current capital supply for agriculture are still lower than in U.S. agriculture, but not excessively so. Yet the high share in investment is a necessity because of previous neglect and the planned growth rates. During 1981–85, however, the rate of increase of investment in the economy at large, and thereby also in agriculture, will be less than before. While the total increase was 31 percent during 1971–75 (over the 1966–70 average) it now is planned at only 10 percent, and may turn out still less during 1981–85. Most of this will be needed for reinvestment necessitated by the expanding capital stock, so that not much will be left for net investment.

The productive fixed assets (*osnovnye fondy*, including livestock, but excluding land) employed in Soviet agriculture at the end of 1979 were valued at 223 billion rubles, of which no more than 20.7 percent were in machinery, comparable equipment and means of transportation. Per hectare of arable and permanent crop land (disregarding other agricultural land such as pasture, range, etc.) this share amounted to 965 rubles (equivalent, on a per acre basis, to 594 U.S. dollars at the official exchange rate of September 23, 1981). Productive gross investment in agriculture alone (not using "the whole complex" concept) in 1980 amounted to 32.6 billion rubles, or 13.7 percent of the 1979 (end of year) assets—not an unusual proportion by American standards. But it made agriculture's fixed assets grow by 15 billion rubles during 1980, which is a surprisingly high net effect and points to a low renewal rate.

It is impossible to compare these highly aggregated data internationally, not only because of exchange rate and price structure problems but mainly because of those of categorization and definition. Thus U.S. data on assets include the land value, whereas the Soviet statistics attribute no value to land. However, it is feasible (disregarding price and exchange rate problems) roughly to compare the total of machinery, equipment, motor vehicles, livestock and poultry assets in both countries. In 1978, they amounted to 300 rubles per hectare in the U.S.S.R. (equivalent to 185 U.S. dollars per acre) as compared to 230 U.S. dollars per acre in the United States. It seems that buildings and similar assets were slightly less per acre in the Soviet Union than in the United States.

Per worker, the picture is entirely different. As the number of workers per land unit in U.S. agriculture (however defined) is about ten times less than in Soviet agriculture, assets per worker correspondingly are more than ten times greater.

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Lack of data prevents a comparison of the turnover, or working, capital available to Soviet and American agriculture. The author's very rough estimate puts it at nearly 115 billion rubles for Soviet agriculture during 1979, of which about 44 billion were formed by the wage fund.[14] Various Soviet and also East European authors complain that turnover capital is too small in proportion to fixed capital, although they imply a proportion of 4 or 5 to 10, which would seem fully satisfactory. However, its potential productive effect is impaired by its slow rate of turnover. Such inputs as fertilizer, plant protection chemicals, spare parts, etc., generally are in short supply and therefore need to be bought for reserve before they are really needed. Or else the farms do not buy exactly what they need, but what is to be had at a given moment, although it cannot be put to optimal use. Such behavior freezes part of the financial means. In addition, collective farms often use short-term credits for financing mid- or long-term investment, and assign a growing share of their net income to fixed capital stock.[15]

Even in view of the short capital supply, Soviet agriculture seems overmanned. The number of annual average workers in purely agricultural employment (including the private sector, and therefore coming close to full-time equivalents) was officially estimated at 27 million in 1979, as against 32 million in 1960. On average, each of these workers produced 4,574 rubles worth of gross product in 1979 (6,415 U.S. dollars at the official exchange rate), of which he/she received about 60 percent (roughly 3,000 rubles per year, or 4,200 U.S. dollars) as wage or other labor remuneration. This includes net income from the private plot![16] The Soviet agricultural work force was tantamount to 5.6 workers per 100 acres of arable and perennial crop land, about as many as on the small farms of Western Europe, and about ten times more (in full-time equivalents) than in the United States. And this man/land ratio has only moderately dropped since 1960. It has to be added, though, that more than one-third—nobody knows the exact figure, not even Soviet statisticians—of this labor is devoted to the mini-plots and livestock holdings of the population. Still, the remaining public work force is obviously employed ineffi-

[14] From residual data on fixed assets plus "material turnover funds" (*Narodnoe khoziaistvo SSSR v 1979 g.*, pp. 232, 234) and on labor numbers and wages paid (*ibid.*, pp. 285, 293, 301).

[15] Karl-Eugen Wädekin, *Agrarian Policies in Communist Europe*, Totowa, N.J./The Hague/London: Littlefield Adams, 1982, p. 152–53.

[16] His/her counterpart in the highly capital-intensive American agriculture in 1979 generated $40,000, or—if fully employed—more than that, of gross farm income (which roughly corresponds to gross output under the Soviet definition). With an average wage of $3.39 per hour, full employment (Soviet definition) brought him/her $6,500 per year in 1979, excluding side income.

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ciently. Only every fifth or sixth worker is technically skilled (a *mekhanizator*) or a truck driver.

In the specialized Soviet literature, complaints about labor shortages and excessive labor outflow from agriculture are frequent. Apart from inefficient use of machinery, especially during labor peak times, this also has to be seen against great regional disparities. In some parts of northwestern and central Russia, the outflow and shortage of agricultural labor has far exceeded the national average, whereas in the Central Asian areas the rural population and labor numbers still rise in absolute although not in relative terms. There, agricultural labor is clearly abundant and underemployed, except for the cotton harvesting time, when 47 percent of the cotton is still picked by hand.[17] Similar discrepancies, though less excessive, prevail all over the country, so that shortages of labor exist simultaneously with surpluses.

V

Private production under Soviet conditions is carried out not only by collective farm members on their household plots, but also by other (state-employed) agricultural workers and rural people and by a certain segment (suburban and small town) of the urban population. An average collective farm household has usage rights on 0.5 hectares (1.3 acres) of agricultural land, in some cases more, but the actual average for the Soviet Union by now is 0.25 hectares of arable and garden land. The same applies for many state farm workers' families, as most state farms developed out of previous collective farms. Other population segments are usually allowed 0.15 hectares in rural and less in urban areas. For livestock in private ownership the legal upper limits vary by regions—one cow plus calves, two hogs for fattening or one breeding sow, and five to ten sheep or goats per household being the most commonly applied restrictions on collective and state farms.

It is obviously the precarious food and especially meat supply situation which has made the Soviet leaders take a more or less benevolent attitude toward the private sector of agriculture, although never without ambiguity, especially on the medium and lower administrative level. Under Stalin and Khrushchev this residual sector suffered from neglect to enmity, and nevertheless did not cease to exist. At the time when the rural population formed the majority in the U.S.S.R. (61 percent in 1950, and still

[17] *Ekonomika Sel'skogo Khoziaistva*, no. 8, 1981, p. 17.

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51 percent in 1961), this majority largely lived on private food output, except for its grain, sugar, and vegetable oil supply, and even urban people had to rely on it to some extent. By now the share of both the rural population (37 percent in 1981) and of private agricultural production has decreased. Yet the sector still is big enough for the leadership to hope that it will contribute to alleviating the country's supply situation, especially with meat and milk. The important question is whether such hopes can come true.

Indisputably, the general economic and demographic parameters of private plot and animal farming have deteriorated since the 1950s. Therefore, the decrees and authoritative statements in its favor have been reiterated from time to time, recently in a decree of January 1981. This provides, among other things, for wider limits on private land use and animal raising than up to then, but on condition that the additional quantities so produced go at fixed prices to a collective or state farm, or to a public procurement agency—that is, not into free market outlets (the so-called *kolkhoz* market).

According to a recent Soviet estimate, the private sector in 1976–77 produced 25.2 percent of total agricultural output; its share in animal production was an important 31 percent, while in crop production it accounted for only 18.5 percent.[18] In relative terms, its share had declined since 1966–70 (and earlier), but the absolute volume of its output (valued in constant 1973 prices) remained practically the same: 30.7 billion rubles per year during 1976–77 as against 30.8 during 1966–70, of which 10.5 and 10.4 billion, respectively, were in crop production. By 1979, it had increased to 32.4 billion rubles, but declined to the 1976–77 level again in 1980. As a share of overall agricultural output, however, it has slightly grown during 1979–80 because of the social sector's disappointing performance.[19]

For 1981, the statistical report is ambiguous. It states in general terms that the "personal subsidiary plots" increased their output (to an unspecified degree); on the other hand, indirect evidence points to the sector's decline. Very likely, private production on a contractual basis binding it to social production increased, whereas the truly private animal holdings and plot production shrank. For the first time since Stalin's era the numbers of privately owned livestock were not given in the report for 1981.

The private sector in 1980 occupied only 2.6 percent of total

[18] V. Babaeva, *Ekonomicheskie nauki*, no. 2, 1981, pp. 71–73.
[19] Derived from the official indices in *Narodnoe khoziaistvo SSSR v 1980 g.*, p. 205.

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arable land, but owned 30 percent of all cows and roughly one-fifth of other livestock. These animals cannot, of course, be fed from the small private plots. Agricultural labor remuneration in kind (grain for the most part), haying and grazing permits on public land unsuitable for machinery work, and—to a limited but recently increasing extent—feed sales from public stocks form most of the feed basis of private animal production. This fact and concentration on high-value, labor-intensive crops (potatoes, the finer vegetables, fruit, spices, etc.) are the reason for the still amazingly great contribution of the private sector to the population's food supplies.

Only 15 to 20 percent of private output is sold, in part on the free markets; the rest is consumed by the producers themselves. In most rural areas such self-supplying is less a question of prices and incomes than of sheer physical availability, as the retail network in the villages is only rudimentary. (Even in cities it leaves much to be desired.) Therefore, the monetary income-generating effect is of secondary importance for most private producers. The often-made comparison of farm wages and income per hour from the private plot is beside the point. Moreover, in the regions with agricultural underemployment it is beside the point also because there the comparative marginal value of labor in the collective sector just does not exist.

During the 1950s there was abundant, or at least enough, labor in most of Soviet agriculture, whereas today a shortage exists in parts of the country. As everywhere in the world, it is mainly the younger generation which has been leaving the countryside. The remaining population is aged and soon will undergo a disproportionate natural decrease. In order to keep people on the farms, agricultural wages and other remuneration have been raised substantially since the early 1960s, and the retail supplies for the villages, although still inadequate, are improving. Few Soviet people today bake their own bread, as most of them did in rural areas 25 years ago. Thus private production and receiving grain from the social farm have become less of a vital necessity. Moreover, it seems doubtful that the limited incentives offered lately for selling private produce to the public sector (see above) will make many people perform the necessary additional work.

All this results in very dim prospects for a growing contribution of the private sector to the country's food supplies, in spite of the more tolerant policy. Significantly, the numbers of animals held privately per collective farm household have remained stable or even increased slightly, yet the number of such households them-

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selves went down from 17.1 million in 1960 to 12.8 million in 1979. They now account for less than half of total private output, whereas in the 1950s they supplied roughly two-thirds. Barring a fundamental change in the official attitude, the private sector will at best maintain its present production level, if more liberal marketing rules are applied, combined with a more generous supply of means of production suited to such small-scale operations (small machines, chemicals, transport facilities, building materials, breeding stock, feedstuffs, etc.). But it will not sizably contribute to an overall output increase. In this regard, the present policy is 25 years too late.

VI

Does it follow from Soviet agriculture's recent poor performance that Moscow will for the foreseeable future continue to have to buy grain abroad in the present great quantities? Not quite. Successive harvest failures like those of 1979, 1980 and 1981 are not likely to continue, although they hardly were wholly accidental. Because of severe shortfalls in the Soviet chemical industry, agriculture during those years received much less fertilizer than planned. Its application on grain (excluding corn), which was practically zero in 1965, increased to 6.6 million metric tons of effective nutrient in 1977, but since then has declined again to 6.3 million metric tons in 1980.[20] (In 1981, the total quantity of fertilizer supplied to agriculture grew by only two percent.[21]) Thus, there is ample room for improvement in fertilizer application. Apart from such man-made inputs, climatic change and soil depletion, in part as a result of over-utilization of land and water resources, come to mind as possible causes of recent harvest failure. Be that as it may, one should not exclude the possibility of better harvests in 1982 and 1983.

A number of other factors are also likely to improve somewhat (though within limits), such as the percentage of dockage and waste of grain, the production of non-grain feed, the feed conversion ratio, etc. All these may contribute to a reduction in the present volume of grain imports (30 to 40 million tons in both 1980 and 1981). A ten-percent improvement of the feed conversion ratio alone would save more than ten million tons of oats units.

Paradoxically, the inevitable shortfall of meat production, for

[20] *Vestnik Statistiki*, no. 3, 1978, p. 93–94; no. 3, 1980, p. 78–79; no. 3, 1981, p. 78–79 (derived from the data on quintals per hectare, which arithmetically apply to total sown area, although the area actually fertilized is also indicated).

[21] *Sel'skaia Zhizn'*, January 24, 1982.

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reasons inherent in Soviet livestock raising and herd quality, will also help to reduce grain imports. Meat output is planned to attain 18.2 million metric tons by 1985, but will hardly exceed 16.5 to 17.0 million. This means that, in all likelihood, due to the extremely poor feed conversion ratio, as much as 10 to 15 million metric tons of oats units (part of them consisting of non-grain feed) will be "saved" and thereby about 5 to 8 million tons of grain and protein feed will not have to be imported. The Soviet consumer will perhaps get increasing quantities of imported meat as a part-compensation, and to that extent will take advantage of the better feed conversion ratios in Western exporting countries.

The Soviet balance of foreign payments forms a compelling reason to buy less grain in Western surplus countries. At the time of the great Soviet harvest failures of 1972 and 1975, rising energy and gold prices made Moscow able to pay the food import bill, which rose from $5.1 billion (of which $0.7 billion was for grain) in 1974 to $13.3 billion (of which $3.4 billion was for grain) in 1979,[22] and probably to more than $15 billion in 1980. By 1981, the situation had changed: the prices of Soviet energy and gold exports stopped rising and the physical volume of these exports fell. Yet grain imports reached an unprecedented maximum; even if they are reduced by the mid-1980s, they might then for a while stay around an average quantity similar to the 1977–78 two-year level (16.5 million tons), which, of course, does not exclude heavy annual fluctuations depending on the weather. Meat imports may yet surpass their all-time high of 1980, and other food imports are likely to stay at a high level. The outlook for the balance of payments has turned worse during recent years. At the same time, there are growing economic burdens arising from political factors such as Poland, Afghanistan and Vietnam—not to speak of Moscow's armament effort.

Under these circumstances, Moscow will do everything feasible to cut down on food imports. It may succeed to a certain degree, although it will be forced for some years to import still very great, though possibly decreasing, quantities of food, especially grain. It is imaginable that Moscow will try to cut back on U.S. sales, first by keeping the absolute quantities bought from Argentina and Canada at the present level. As a residual supplier, the American farmer might thus be hit within a few years by the outlined partial reduction of Soviet grain purchases.

[22] *Agricultural Situation USSR, op cit.*, p. 45.

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VII

Most of the output goals set for 1981–85 will not be achieved by Soviet agriculture, including the most important ones. If in 1980, when the new plan guidelines were adopted, such a prediction was reasonable because of the limits on land, labor and investment, it has become a certainty in view of the results of 1981. As to grain, even a new bumper harvest, equalling or exceeding that of 1978 (237.4 million metric tons) would not mean plan fulfillment, as the guidelines for 1981–85 demand 239 million tons as the 1981–85 average and not just for one year or two. It is only beyond the end of the quinquennium that such an average—disregarding shortfalls or surpluses in individual years—may be achieved.[23]

Under the impact of Soviet agriculture's failures, Brezhnev announced in a speech of October 1980, and reiterated on several occasions (most recently at the November 1981 plenary session of the Central Committee), that the Politburo had decided to have a "complex food program" worked out; he implied its promulgation at an impending Central Committee session. His remarks were in very general terms: all efforts of agriculture proper and of its forward and backward linkages are to be combined and directed at the goal of "supplying the country's needs in food." (What else should a food sector aim at?)

In the Soviet Union, achievement of this goal seems still far away in view of the rising consumer demand. To the contrary, investment growth will slow down greatly (even if the current plan is achieved in this respect), current inputs will grow less than previously, agricultural labor numbers will continue to shrink, and the agricultural land area will expand only slowly and at high cost. Still, an annual one to three percent rate of net investment may remain, and agricultural output will continue to grow, but at decelerating rates. The policy measures taken so far, such as increases of producers' prices, tolerance toward the private sector, the emphasis on producing more leguminous grain and non-grain feed, and the first results of the continuing 1975–1990 plan to develop the Russian "Non-Blackearth zone" are not of a kind essentially to change this prospect. These steps make sense but so far have been much less successful than expected.[24]

[23] The projection of Soviet grain and meat output is elaborated upon in some detail in a forthcoming study by the Giessen Center, with the author's participation, cited in footnote 8.

[24] The continuing commitment of the Soviet leadership to the expensive program for the Non-Blackearth zone, as spelled out in a decree published on April 15, 1981, is noteworthy,

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A sizable reduction in food imports cannot be effected in the short run by any rapid increase in agricultural production; the odds are simply against it. In order not to let imports grow, in the short run, domestic consumer demand will have to be cut back. The price increases of September 1981 on some industrially produced consumer goods and on gasoline were just one such step, but inevitably meat supplies will have to be curtailed, whether through prices or—as is happening already—by local rationing or unorganized non-supply. The example of Poland has shown that this can be dangerous, although those of Hungary and Bulgaria have demonstrated the possibility of price increases without major popular unrest. However, there is so much pent-up demand (cash) in the U.S.S.R. that price measures would have to be of an extremely drastic kind if they were to have a real effect.

In short, Soviet agriculture remains in serious difficulty, with the requirement for substantial imports only a part of the overall problems of demand, organization, incentive and pricing. It is impossible to predict how the Soviet leaders may react to these problems or how they may deal with the urgent necessities and severe constraints they face. In late January 1982, one day before publication of the annual economic report, *Pravda* printed an unusual account of a session of the U.S.S.R. Council of Ministers, at which the economic results for 1981 were discussed "and measures to ensure fulfillment of the plan and budget for 1982 were planned." Although the performance of agriculture and the food industry was not singled out for criticism, as other sectors were, the report specifically noted that Mikhail Gorbachev, the Central Committee Secretary responsible for agriculture, had taken part in the session.

This account suggests that important measures in the agriculture and food sector may be imminent. In light of the serious situation, the shortage of resources, and the rigidity of the system, however, it is difficult to imagine what these might be.

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because the results of the first six years, 1975–80, were utterly disappointing. Thus, on the five-year averages, 1976–80, as against 1971–75, grain production in the zone increased by only 10 percent, meat by 7.5 percent, milk by 1.1 percent. Only eggs, as everywhere in the Soviet Union, showed a big rise by 31 percent, and one may safely assume that the rise in meat output was due to broiler production, both being mainly based on feedstuffs imported through Leningrad and other Baltic ports. On the other hand, potato production decreased by 18.5 percent, and flax went down precipitously by 25 percent (see *Sel'skoe Khoziaistvo Nechernozem'ia*, no. 1, 1982, p. 3, and *Narodnoe khoziaistvo SSSR v 1975 g.*,, p. 340).

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Albert Fishlow

THE UNITED STATES AND BRAZIL: THE CASE OF THE MISSING RELATIONSHIP

Brazil is not much in the news these days. Of course, no news is good news to a Reagan Administration beleaguered by internal dissension in the formulation of foreign policy and problems elsewhere in the world that are less tractable than campaign slogans suggested. It seems to confirm the prevailing view in Washington that the U.S.-Brazil relationship is back on course again after the trying Carter years when human-rights concerns and resistance to nuclear proliferation seemed to cause it to go awry.

But, on second thought, Brazil's disappearance from the news may be part of what is wrong with present strategy. Brazil, after all, is the principal military power in South America and sits astride the sea lanes of the South Atlantic that carry petroleum from the Persian Gulf and strategic minerals from Africa. Its technological sophistication has made possible increasing exports of arms—expected to have amounted to more than one billion dollars in 1981. It is the eighth largest market economy in the world and tenth overall, with a gross product of around $220 billion. Brazil has rapidly increased its integration into international markets in the last decade: since 1973 its exports have quadrupled and its debt increased by a factor of about five. Equally to the point, Brazil is undergoing far-reaching internal changes. The economic miracle and authoritarian stability are no more.

Brazil has experienced its worst economic downturn since the Great Depression, with a negative growth rate of almost four percent last year, and a larger decline in industrial production. The recession has been imposed deliberately with the primary objective of shoring up a vulnerable balance of payments that remained in deficit in 1981 on current account by some ten billion

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dollars, despite about a doubling of exports between 1978 and 1981. Since 1973, despite world recession and ever-larger oil imports, Brazil had managed through reliance on external finance to sustain a growth rate of almost seven percent. Now its economic prospects, at least in the near term, are distinctly more clouded.

At the same time, a transition from authoritarian rule has gained speed. Even the change in election rules last November has not rescinded the direct elections for governor planned for November 1982. That will provide the first opportunity for a popular vote for that office since 1965. A new congress will be chosen at the same time under a multiparty system that has only recently supplanted the formerly mandated two-party structure. While no one imagines that an opposition candidate could gain the indirectly elected presidency in 1984, talk of a possible civilian successor has wide circulation.

These internal circumstances make more curious still Washington's total preoccupation with the Caribbean Basin as the focus of Latin American policy, and reemphasis of a narrow anti-Soviet allegiance as its ideological basis. Just when Brazil is deeply immersed in reacting to its economic difficulties, which necessarily influence its nascent more participatory political process, the United States is largely ignoring and even aggravating them both in order to get on with its national security agenda. In doing so, the Reagan Administration is fundamentally misreading the history of the postwar U.S.-Brazil relationship.[1]

The pre-Carter years were never quite so harmonious and the relationship quite so beautiful as Roger Fontaine, now on the National Security Council staff, once postulated. Very early on, after the war, Brazil discovered that the United States, promises to the contrary, was not about to commit significant public resources to an ambitious Brazilian project of development. The foreign economic help received came largely from the private sector, and Brazil's successful industrialization through import substitution averted the virulent nationalism that might otherwise have flourished. The limited U.S. financial support allocated to Latin American anti-communist regimes was felt more positively in Brazilian military circles. The armed forces reaped the gains of modern equipment and advanced training, and maintained close ties with their U.S. counterparts.

When the military intervened in 1964, there was a brief interval

[1] For a fuller discussion, see my earlier "Flying Down to Rio: Perspectives on U.S.-Brazil Relations," *Foreign Affairs*, Winter 1978/79.

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in which the dominant Brazilian economic development objectives and the preeminent U.S. security concerns were almost fully congruent. The new military government was fully anti-communist, and had justified its revolution on those grounds. Washington's response was immediate and financially generous. Even as the regime hardened into a more long-lasting authoritarianism, there was continuing support. Brazilian foreign policy reciprocated. It took as its priority "to defend the security of the continent against aggression and subversion, whether external or internal." Rhetoric had its counterpart in action. Brazil sent troops to the Dominican Republic in 1965 and embraced the concept of a permanent inter-American defense force.

That golden age did not last out the decade. As Brazil accelerated its economic growth and became integrated into the international economy after 1967, the alliance progressively eroded. Brazil gained access to private capital in quantities that far exceeded the availability of public loans. The United States was dispensable. Moreover, a new economic capability promised to underwrite a more assertive and independent Brazilian international role. The generals who came to power after 1967 were neither committed constitutionalists nor cosmopolitan internationalists. In place of junior partnership they visualized *grandeza.* While Brazilian foreign policy would continue staunchly anti-communist, it no longer need ratify U.S. positions.

Brazil refused to adhere to the Nuclear Nonproliferation Treaty, and even backed away from unconditional support of a hemispheric nuclear-free zone. Brazil asserted sovereignty over a 200-mile offshore coastal limit, and claimed extensive economic rights there. Its active search for economic association with the newly liberated African states outweighed loyalties to Portugal and other former colonial powers. Even the commercial possibilities of Eastern Europe were explored.

The 1973 oil crisis was the decisive turning point. It exposed a Brazilian vulnerability—Brazil was the largest oil importer in the Third World—that was at odds with the perceptions of emergent power. In its time of troubles, Brazil found little consolation in its relationship with the United States. The help that was forthcoming came from international financial markets. Indeed, the United States became an active antagonist in 1974 and 1975 in three respects: nuclear fuel, trade and human rights.

The U.S. decision in July 1974 no longer to guarantee processing of fuel for nuclear reactors then under construction by Westinghouse was a hard blow to a country seeking to expand its nuclear

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capacity as a substitute for high-priced oil. That the decision applied universally, because of limited U.S. capacity and potential domestic demands, did not help. On the contrary, it drove home the absence of a special relationship and the reality of continuing dependence.

During 1974 the United States also found Brazil at fault in a countervailing duty action brought by American shoe manufacturers. To compensate for export subsidies, Washington imposed a customs surcharge. The decision placed at risk the entire subsidy system—an important component in Brazil's new drive to export manufactured products. Brazil filed a formal diplomatic note of protest.

Finally, as human rights violations acquired wider public notice in 1975—evoking a determined effort in Brasília to regain control over local military authorities—the United States was drawn increasingly into an adversary position. Congressional interest pushed the State Department into a more active stance than it wished, but still less than the U.S. Embassy in Brasília counseled. Inevitably, the Brazilian military government was sensitive to external voices joining the rising internal criticism.

This more complex setting for the U.S.-Brazil relationship exposed new divisions in Brazil's own foreign policy. The Foreign Ministry was more independent and ideological in defining and defending Brazil's interests: it carried the day on energy policy and was a strong proponent of the nuclear agreement signed with West Germany in May 1975. The Finance Ministry was more accommodating and pragmatic: it held sway on economic matters and was more concerned with minimizing the level of countervailing duties than with the principles of a New International Economic Order.

As the relationship was buffeted by these obvious tensions, both the United States and Brazil sought to obscure the realities. The United States wishfully elevated Brazil to a new moderate Third World leadership role it no longer could or wanted to play in its weakened economic circumstances; Brazil's strategy was much more flexible and self-serving. Brazil pressed for an explicit "special relationship" in an effort to extract the utmost in its bilateral dealings with the United States, although appreciative that there was precious little to gain. Indeed, one of Foreign Minister Antônio Silveira's objectives was ratification of the more independent and flexible policy he was already following. The professions of a century-old friendship and recognition of Brazil's status as an emergent power in the 1976 memorandum of under-

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standing concluded during then Secretary of State Henry Kissinger's visit were no longer to the point. It was Silveira, after all, who had warned only a few months before: "During the cold war, a rigid alignment with the leader of the Western bloc was required of the nations of the developing world that share the basic values of the West. An emergent power, with a wide range of interests in many fields, cannot allow rigid alignments, rooted in the past, to limit her action on the world stage."

The new Carter foreign policy initiatives magnified the latent tensions in the relationship. By giving priority to a global solution of issues like nuclear proliferation and to universal rules in international trade and other economic matters, the United States stripped the "special relationship" of even its limited function. At the same time, the Carter Administration's emphasis on an industrial-country cooperative economic recovery strategy pointedly excluded Brazil: emergent powers need not apply. A more aggressive human rights policy downgraded both the traditional economic and security bases of modern U.S.-Brazil relations, and directly threatened the military's role.

Quite apart from early tactical errors of the Carter team, there were thus accumulating substantive differences that finally cracked the facade of amicability. Neither a ceremonial presidential visit in 1978, nor the diplomatic success of a negotiated phaseout of export subsidies in exchange for exemption from countervailing duties, ever served to put the official relationship back together again.

Now another Administration has pledged to try. But its guiding principle of restoration of the status quo ante promises to be inadequate. Not only does it resurrect U.S. security concerns of the cold war at the expense of traditional Brazilian economic development objectives, it is also seemingly blind to the profound internal transition Brazil is undergoing. A policy for the 1980s cannot ignore the Brazil of the 1980s.

II

Brazil now faces a set of interlinked economic problems whose full gravity has finally become apparent. Part of the present difficulties can be traced to the quadrupling of oil prices at the end of 1973 and beginning of 1974 and, again, to the 1979 price shock and subsequent high international interest rates. But they are not the only factor. Internal distortions also derive from the "miracle" years: a lagging domestic agricultural supply; a rising and competitive participation of the public sector in investment;

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an inability to sustain individual profit margins through limited wage gains that, while positive, still were smaller than productivity increases and did not make significant inroads upon income inequality; and a very high elasticity of import demand that was financed by increasing reliance on foreign debt. In a favorable external market of cheap oil and cheap money, these problems were more easily confronted. After 1974, petroleum was no longer cheap. And after 1978, neither was money.

Brazil initially compensated for much greater oil costs by borrowing under relatively favorable terms in international capital markets. That, in conjunction with restrictive import limitations, helped to sustain a relatively high growth rate even as the world economy slowed. But this performance was achieved at the expense of increased external vulnerability as debt and attendant repayment obligations mounted. It had its counterpart in an increased internal vulnerability as larger public subsidies to the private sector and mounting state investment were financed by higher inflation.

The alternative of slower economic growth to restore balance was faced only sporadically. In both 1975 and 1977 industrial growth was checked by credit limitations imposed to cool inflationary pressures. Restrictive policies were soon abandoned. For one thing, no consensus existed on the need to go slow; many wanted to believe, and did, that the Brazilian economy (and *grandeza*) were only temporarily impeded. For another, God *is* Brazilian: the coffee frost contributed to export recovery in 1976 and improved terms of trade; massive capital flows were available in 1978. In both cases, the pressure to reduce growth because of external constraints was lessened. But in the last analysis, temporarily slow growth was also not an effective policy. It had a modest effect on inflation in the short run, and did little to influence the balance of payments. Stop-go was not an adequate substitute for a more fundamental realignment of the economy.

When Finance Minister Mário Henrique Simonsen once more advocated credit and fiscal restrictions in 1979 to remedy accelerating inflation and deteriorating external balances buffeted by a new oil price shock and rising interest rates, he was dismissed. Instead the government opted for the more optimistic prognosis of the architect of the economic miracle, Antônio Delfim Netto. Rapid economic growth could produce more for domestic and foreign markets, thus lowering inflation and putting the balance of payments into equilibrium. His unorthodox policies of cheap credit and firm government controls on exchange rates and inter-

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nal price indexing to lower inflation produced no new miracle. In the new setting of domestic excess demand and of very large international indebtedness, economic growth was sustained but at the expense of a doubled inflation rate and a foreign-exchange liquidity crisis. As a consequence, Delfim, a convert to orthodoxy since late 1980, has opted for a severe recession. A continuing decline in industrial production occurred throughout 1981, and unemployment has mounted to a tangible concern, particularly in São Paulo and other industrialized centers.

Two central questions now dominate economic debate in Brazil. Will this short-term orthodox strategy of fiscal and monetary restriction prove more adequate, or enduring, than in the past? And what implications will the present crisis have for the style of Brazilian development for the rest of the decade?

Those who defend the government's current policies explain them as the only responsible option, and one that will work. As the President of the Central Bank, Carlos Langoni, put it at the annual World Bank/International Monetary Fund meetings in September 1981:

> The fundamental problem is the combination, after 1978, of the new petroleum shock with the financial shock represented by the sharp increase in external interest rates in real terms. . . .
>
> In that context the deceleration of the rhythm of growth, especially of the industrial sector, is inevitable and its intensity and duration will be conditioned to the capacity to overcome the external disequilibriums. . . .
>
> Already the reversal of the trend toward deficits and increasing inflation is apparent, as well as deceleration of the pace of expansion of the foreign debt. . . .
>
> The essential requirement is continuity and persistence.

Even many critics of the government's policies now accept the virtual inevitability of a slower growth of some kind. They are quick, however, to lay the blame on past mismanagement. The frequent, exaggerated and unfulfilled claims made by Delfim after taking office, and not the deficits in the balance of payments alone, contributed to a serious undermining of Brazilian creditworthiness in international capital markets by the end of 1980. Those markets play a crucial role because current account deficits of $10 to $15 billion must be financed annually, in addition to rollover of past debt. Despite a doubling of exports in three years, mounting debt service and oil imports together accounted for more than 100 percent of foreign exchange earnings last year. Loans are essential.

Credit markets have thus become harsh and decisive arbiters of

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the inadequacy of domestic policy. Spreads on Euromarket loans widened to about two and one-quarter percent in late 1980, up from about one percent at the end of 1979, and have only recently begun to recede. That did not tell the whole story. More financing was not in fact available at any price, and this reality forced Delfim to adopt a more conventional economic approach. This, then, is a recession fashioned in direct response to international creditors. And, as *Business Week* headlined in its October 26, 1981, issue: "Brazil's money pinch pleases the bankers."

The seeming evenhandedness of Wall Street to Reagan heterodoxy and to Brazilian illiquidity is little solace to those in Brazil preoccupied with the social tensions and economic costs inherent in a steep decline. Above all, it is not as clear to critics as to government technocrats that the recession will have established the basis for effective recovery.

There is evidence of short-term improvement at the end of 1981. Exports show a $1.2-billion surplus over imports, primarily because non-oil imports have gone down by more than 15 percent and exports have shown a record third year of growth. Nonetheless, the current-account deficit, because of rising interest rates, did not register an equivalent gain. Inflation has begun to decelerate from its three-digit rate and ended the year at 95 percent. Spreads in international markets have perhaps peaked, and Citibank's Walter Wriston optimistically predicted in a visit to Brasília last fall that the bankers will soon be on their way back. More than even these results, however, what counts in the new circumstances of international vulnerability is the commitment to orthodox policies. Already there are apprehensions that more rapid monetary expansion in recent months signals too expansive a policy, and that the 1981 gains will be sacrificed to election-year necessities. The autonomy of domestic policy remains partial.

It is not a situation that favors a constructive opposition. While it is easy to point out the high costs of current policies, and their modest benefits, the external vulnerability is real. It is even greater than official statistics on the debt reveal, since short-term loans and other devices have been used to avoid accounting for probably another six billion dollars in indebtedness over the last two years. This reality explains the central role that opposition leaders have accorded to renegotiation of the debt as the solution. In so advocating, they rely upon the preference of the international banking community, influenced by governments, for a major restructuring rather than a formal default that could shock the whole world financial credit structure. It is a doubtful approach.

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At best, the immediate burden might lessen, but at the price of foregoing the additional net capital inflow necessary to service past debt and finance imports. Renegotiations rarely give adequate room for maneuver, especially when private debt dominates.

I have proposed another, related way out of the present constraints. It is a large, medium-term International Monetary Fund loan at less than the current market rate to finance a continuing adjustment to new oil prices, interest rates and trade realities. The logic of such a proposal has three components. First, it satisfies creditors by following established procedures rather than appealing to extraordinary rescheduling. Second, it improves the mix of private and public loans, and lowers average interest costs. Third, the Fund's requirement of a formal stabilization plan would have the advantage of forcing a short- and medium-term strategy where there is none today. Current measures have already produced a recession much more severe than intended, to some extent because an excess of zeal was required to persuade skeptical creditors of Brazil's sincerity.

While it may seem superfluous to pursue such an option now, after the recession has struck, this may be the right time—before a surge of new private loans and an exaggerated recovery that may prove temporary on account of new foreign exchange shortages to which Brazil will remain vulnerable for a number of years. Even with rapid export growth, imports will sooner than later keep pace, and projections indicate no sizable surplus or relief from the debt burden even by 1984. There is no deus ex machina of petroleum to rely upon, as in Mexico; and even there, as we have seen, it has not averted a major devaluation and restructuring of domestic policy. Particularly if the U.S. recession is prolonged, what Brazil gains in possibly more moderate interest rates will be partially cancelled out by the adverse impact on exports.

The government rejects both debt renegotiation and an approach to the International Monetary Fund, claiming that either would drive private lenders away and thereby reduce the vital import capacity on which Brazil continues to depend. In so doing, the government not only seeks to establish its own monopoly on good sense as an election approaches, but also to avoid the implicit confession of mismanagement associated with an appeal for outside help. The recession then becomes a badge of honor as the only sound response to circumstances beyond Brazil's control, and the government can defend its refusal to wreck the economy for the sake of winning elections.

These views on short-term economic policy correspond to perhaps even more fundamental differences in long-term perspective.

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The government is optimistic that rapid economic growth can be regained and that it is the best—and only—way to improve the well-being of the poor. The opposition, on the other hand, calls for structural reforms, attacks trickle-down as inadequate, and advocates a new development strategy that is more distribution-oriented.

Despite these continuing differences whose origins trace back to the 1950s, the current economic crisis has enforced a convergence that should not go unnoticed. On the one hand, the former faith of government supporters in international economic integration has profoundly lessened. On the other, the opposition increasingly recognizes the importance of a continuing export orientation as a necessary condition for greater autonomy.

This convergence adds up to a Brazilian foreign policy that is likely to be even more independent, and driven by economic objectives, than in recent years—whether the government maintains its present dominance or the opposition gains. When Assistant Secretary of State for Inter-American Affairs Thomas Enders, Federal Reserve Chairman Paul Volcker and Vice President George Bush recently visited Brazil in successive months last fall, it was Delfim Netto, and not just the political opposition, who lectured them about high U.S. interest rates. It was the same Delfim Netto who unilaterally terminated the arrangement to phase out export subsidies and reestablished them, "temporarily," earlier in the year. And it is the current government that has run an advertisement in *Business Week* stating: "Foreign policy has been deliberately shifted during recent years to a more independent line, aimed at diversifying Brazil's trade pattern. . . . Capitalizing on its 'non-aligned' image, Brazil has been particularly successful in breaking into the highly competitive world of arms sales."

While the state of the international economy will be a decisive factor in Brazil's performance, Brazil will be less inclined than ever to take on larger obligations within it. Rather, Brazil—needing oil, external capital *and* markets—will pursue a pragmatic and narrowly self-serving strategy that precludes a large role in North-South negotiations, or other multilateral avenues. Brazil sees itself less as a responsible emergent power and more as a victim in search of justifiable self-help.

III

Since 1974 Brazilian military leadership has sought to devise and implement an extrication strategy consistent with political stability. President Ernesto Geisel's "decompression" policy be-

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tween 1974 and 1979 was conceived and managed by General Golbery do Couto e Silva, the *éminence grise* since 1964 of the military faction committed to a conservative, limited and managed democratization. *Distensão*, aptly named, a controlled "relaxation," was a response to the tensions inherited from the preceding Medici presidency. The successes of the economic miracle and of the eradication of guerrilla opposition had encouraged visions of a permanent, centralized, technocratic regime whose considerable authority would be subject only to the modest counterweight of civil society organized into formal and impotent political parties. This possibility conflicted with the constitutional ideal that had continued to find expression within important circles of the military. Golbery's delicate objective was to retain the substance of the post-1964 accomplishments and the scope for executive authority, while introducing more open procedures.

Decompression, however, was forced increasingly to contend with new and independent forms of civil response. The Church, initially a pillar of support for the regime in 1964, became converted to more vocal opposition to repression and human rights violations as they became more frequent after 1968. Intellectuals, and particularly lawyers, became more bold during the Geisel presidency and insisted that, in the absence of subversive opposition to the regime, censorship could be lifted and legal processes restored. Entrepreneurs joined in criticism of the arbitrariness of the government in executing economic policy: *estatização*, state intervention, became the rallying cry of a conservative opposition based in São Paulo that found the technocracy overbearing and too powerful. Workers reacted to accelerating inflation by demanding larger wage gains and the right to organize. New labor leaders of a post-1964 generation emerged; the most prominent was Luis Inácio Silva, popularly known as Lula. He led the successful, albeit illegal, strike of the metallurgical workers' union in 1978.

Decompression thus became simultaneously a strategy against the military hard-liners *and* the perceived civil political opposition that might otherwise obtain a leading role. Tactics responded to the particular enemy that seemed most threatening at one or another time. Increased repression after the electoral defeat of the government in 1974 was followed in 1975 by dismissal of the commander of the Second Army, based in São Paulo, where violations had been the most open and defiant. The elections of 1978, conversely, were permitted to take place only under new rules that modified the political process by favoring the govern-

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ment. Earlier, in April 1977, dictatorial powers were invoked to close the congress in order to decree the new conditions. Authoritarianism—the continuing right to reformulate the rules—was exploited in the service of an eventual return to the rule of law. Indeed, Brazil's sharp response to the Carter Administration's nuclear nonproliferation and human rights policies was an integral part of this pattern of domestic political management.

Geisel, despite signs of restlessness in the military as civil society reasserted itself, persevered in his program of reform, even at the cost of dismissal of his War Minister. His personally chosen successor, President João Figueiredo, was selected because of his commitment to it. General Golbery was retained as chief civilian (*sic*) adviser to oversee the continuation of a process that had subtly transformed itself into *abertura*, a genuine opening to broader participation. The character of the regime has decisively changed. In recognition of the central importance of legal norms, Institutional Act No. 5, the basis for extraordinary powers decreed in December 1968, was repealed and the right of habeas corpus reestablished; judicial authority was accepted as an increasingly independent counterweight to the executive. In the second place, the rights to know and to criticize were conceded. The government abolished formal censorship of the press, if not of more popular media, and resigned itself to manifestations of popular dissent. Finally, it broadened the prospects for a civilian political process in which eventually new parties, and former popular leaders, including those banned from Brazil after 1964, might compete for real power.

Abertura has proved surprisingly resilient. The political opening has thus far survived the May 1, 1981, bomb explosion at Riocentro in which elements of the armed forces seemed clearly implicated, requiring a government cover-up. It has persisted after Golbery's unexpected forced resignation in August 1981 which initially provoked anticipations of a harder, military-imposed line. It has continued despite the heart attack of President Figueiredo in September 1981 and his absence from office until November. Indeed, the temporary succession of his civilian Vice President Aureliano Chaves, in accordance with constitutional procedures, was in marked contrast to the response in 1969 when President Costa e Silva suffered a stroke. Then a military junta assumed power and dispensed with a civilian vice president. Finally, *abertura* still continues despite the government's November package of rules that changed voting procedures to require party-line balloting in an attempt to build upon the strong edge in local organi-

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zation which the government party enjoys. Polls continue to show the likelihood of opposition control of key states, including São Paulo, Rio de Janeiro, Pernambuco, Rio Grande do Sul, and perhaps others.

This transition is all the more notable in view of the persistent suggestion of incompatibility between economic crisis and direct elections. That incompatibility is assumed to exist because of the difficulty of conducting austere economic policies in a climate of broader popular mobilization and social unrest; because of the consequences of political uncertainty on the massive supply of foreign capital still required to equilibrate the balance of payments; and, not least, because of the increased likelihood that the opposition parties will inflict a major defeat on supporters of the government. Golbery's master plan was to have elections, but not to lose them. Democratic procedures were required to legitimize conservative values that the military regime no longer could guarantee, not to transfer power to a suspect opposition. The November package was an effort to do just that, making clear that the capacity to change the rules is one of the rules of the transition. What also motivated this decision was a distrust of the government's own party, and of enhanced congressional and gubernatorial authority. That comes much closer to doubting the premises of *abertura*.

While economic circumstances may yet be invoked to rationalize a more explicit intervention by elements in the military wary of ceding power, their contribution is more complicated. To some degree, the demise of the economic miracle, and with it the myth of technocratic omniscience, have accelerated the demands of civil society for direct participation. That broader popular involvement has progressively transformed the political opening from a paternal dispensation to a semiautonomous process whose interruption cannot be expected to receive unified support from the elites. The once presumed invincible alliance of interests among the state, foreign investors, and domestic producers is in disarray.

Moreover, the economic crisis has not unleashed either popular agitation or an irresponsible political response. The protest in Salvador in late August 1981, against the rise in transit fares, which degenerated into stoning and burning of buses, has not been generalized. It is more comparable with similar occasional incidents involving suburban trains serving Rio and São Paulo than as a manifestation of public disorder or leftist subversion. Opposition political speeches have not encouraged demonstrations or challenges to authority, any more than they have proposed

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radical policy alternatives. Rather, there has been an attempt to define a common ground with more progressive industrial leaders in alleviating the harshness of restrictive economic measures. At a practical level, wage settlements have been negotiated within limits defined by the present legislation without signs of increasing strike activity. In this sense adverse economic conditions may favor the transition by reducing the attraction for class-defined coalitions to form to dispute for an apparently large surplus.

Nor is it obvious the government will lose through elections as badly as some fear. The rule changes of November, and other new ones as necessary, afford a powerful lever. But, in addition, the very magnitude of the economic decline in 1981, and a continuing stability in the balance of payments—aided by declining real oil prices—are permitting more expansive policies in 1982 without discouraging new loans—at least not yet. Delfim's present orthodoxy is a temporary faith, imposed by necessity rather than by conviction. Even should the elections go badly, a recomposition of deputies could be counted on to provide a needed congressional majority for President Figueiredo. The effort to fuse the leading opposition parties has encountered resistance from within, and not merely from the government.

The political opening, and its precariousness, have direct implications for U.S. policies toward Brazil. For one thing, it forces a decision on how supportive of the transition we want to be, not only in our official contacts with Brazil, but in conversations with our own private sector. For another, it introduces a new Brazilian domestic sensitivity to any outside advocacy or enforcement of economic orthodoxy: in this election year that is tantamount to clear support for government policies and could introduce an anti-Americanism into opposition rhetoric that has thus far been largely absent. The criticism of multinational enterprises and their policies that has increased in recent months has nonetheless so far remained restrained in tone and substance. In the heat of a campaign, with foreign neutrality a potential issue, there could be reversion to more overt anti-American sentiment. Finally, the opening introduces the prospect of the influence of public opinion on Brazilian foreign policy that has largely been absent since 1964. Even when that policy has refused to follow U.S. leadership in recent years, the decisions were not rooted in the domestic politics of nationalism. They served the self-defined objectives of the regime and were even at times criticized by conservative supporters of the government. Now, new, and perhaps more hostile, voices may be raised.

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IV

Present U.S. policy toward Brazil is informed more by the principles underlying our foreign policy as a whole than by these far-reaching changes in Brazil. The most relevant of those principles include the following. First, the dominant concern of the United States is its strategic capability vis-à-vis the Soviet Union. Second, North-South issues have their solution in free trade and free flows of capital, both of which are to be exclusively determined by market forces. Third, political stability in Latin America not only contributes to faster economic growth by attracting private resources but is also necessary in order to deflect a new potential wave of Soviet- and Cuban-inspired subversion. Fourth, diplomacy is to concentrate on matters of bilateral concern, with only nominal support for multilateral procedures and even less for the substance of global issues like nuclear proliferation, the law of the sea, and the international economy.

From these axioms the specific corollaries of the Reagan Administration's policy toward Brazil can be deduced. Brazil is important to the United States not because its economic development requirements and size pose an opportunity and a need to devise rules to ease the potential tensions of interaction with the already industrialized countries; nor because its political opening is a general model to be encouraged for the Southern Cone of Latin America; nor because it is a central and potentially influential actor in a series of multilateral questions still outstanding, including those of North-South relations. Brazil is important, rather, as a potential ally against Cuba and the Soviet Union, as a bulwark of stability in a seemingly less tranquil Latin America, and as a developing country committed to a large role for the private sector and thus affording new opportunities for U.S. exports and investment.

Not surprisingly, principal priority has been attached to enlisting Brazil more actively in the East-West struggle. Assistant Secretary Enders, in the major speech of his visit to Brazil in August 1981, stressed four elements that tied the two countries together. One was concern for the destiny of other countries in the hemisphere, i.e., foreign intervention in the Caribbean Basin. Another was a common interest in preserving the security of the South Atlantic, i.e., the Soviet and Cuban involvement in Africa. The third was preoccupation with the Soviet invasion of Afghanistan and Soviet pressure on Poland. The fourth, the common challenge to promote world prosperity, was the single deviation

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from a conceptual framework designed in cold war terms. Vice President Bush's visit similarly emphasized a more energetic anti-Cuba, anti-Soviet collaboration.

The Pentagon would dearly hope to go even further. For it, an explicit South Atlantic Treaty Organization bringing together Brazil, Argentina and South Africa, and greater military cooperation, remain central objectives. The State Department is hard pressed to limit the pitch to just more active Brazilian diplomatic engagement.

The specific benefits Washington offers to Brazil are a closer, revitalized, bilateral special relationship. Frictions dating from the Carter years are to be eliminated. Most significant, the United States has pledged to again become a reliable supplier of nuclear material, still impermissable under current U.S. law which requires more rigorous inspection standards than Brazil accepts. In the interim, Washington has permitted Brazil to purchase fuel from Urenco (a consortium of German, Dutch and British companies) for its Angra I reactor without being subject to the multimillion-dollar fine provided in the original Westinghouse contract. Human rights, of course, no longer disturb the relationship, and had not done so even before the Reagan Administration's demonstrated downgrading of their priority. Publicly, the Administration expresses support for *abertura*, while privately being sensitive to the needs of the regime to retain control of the process. In the area of trade policy, the Administration did accept the new export subsidies imposed in 1981, in violation of the 1978 agreement to phase them out. In the end, only five products were required to pay compensating countervailing duties.

While these problems have been solved through bilateral efforts, the Reagan Administration has succeeded in creating new and more serious ones. Most important in practical terms is the adverse consequence of high interest rates. Since 1978 these rates have not only increased in nominal terms, but relative to inflation. Reaganomics, a mix of tight monetary policy, tax cuts and military spending increases, is necessarily a high real interest-rate policy. Because of the size of the Brazilian debt, a one-percentage point change in interest rates produces a $400- to $500-million effect on Brazil's balance of payments. That is about the impact of a two-dollar change in the price of oil per barrel. With one significant difference: instead of being able to cut back its use of higher priced money, Brazil is required to borrow even more to offset the larger deficit. This is by now an old story to U.S. officials: all our allies are upset. But one might have expected more sympathy for

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the plight of a Brazil experiencing a serious recession because of its international payments problems. Instead, Paul Volcker, during his trip in September 1981, apparently stressed the need for greater Brazilian discipline.

What the United States has offered to Brazil through its endorsement of free trade, and hence market access vital to its development prospects, it now threatens to take back by insisting on Brazil's graduation from special preferential benefits that its developing-country status has so far bestowed. In 1981 three Brazilian export categories were removed from the list of products eligible for tariff-free import under the generalized system of preferences. This executive decision—along with removal of 25 other categories primarily affecting Hong Kong, Taiwan and South Korea—was justified as necessary to forestall congressional action depriving these newly industrializing countries of preferences altogether. This bilateral determination affects Brazilian exports only marginally, but is a worrisome omen. In addition, Brazil has been singled out, along with European exporters, in the current steel complaint before the International Trade Commission. Potentially even more serious is a strong U.S. move to deprive Brazil (and other middle-income countries) of access to concessional loans from the World Bank on grounds of its increased per capita income. It could hardly come at a more unpropitious time.

The content of this policy cannot carry the burden of the revitalization of the relationship the Administration says it seeks. Brazil does not share the fundamental East-West perspective on global problems the United States now seeks to impose. Brazilian suspicion of détente because it feared the great powers together might seek to freeze power—as in the Nuclear Nonproliferation Treaty—does not translate into an automatic and virulent anti-Sovietism. The commercial mission to Moscow last year and failure to participate in the grain embargo showed otherwise. Brazil's continuing break in diplomatic relations with Cuba does not mean it will exert itself to remove Cuban troops from Angola, or to involve itself in Central America or the Caribbean, as the United States would like. Indeed, a Brazilian high-level commercial mission from the private sector pointedly visited Cuba in January to examine the possibility of resuming trade—even while Secretary of State Haig was railing against Cuban intervention as a proxy for the Soviet Union. Brazil's ties with Angola and black Africa are well established and assist growing exports. There is minimal concern for the safety of the South Atlantic, and no interest at all in a military treaty to defend the area.

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Anti-Sovietism could work in 1964 in the flush of a military revolution to rid Brazil of a subversive threat, and because there was a large direct economic payoff in the form of development assistance. Neither factor is relevant now. Even the hard-line military preoccupied with the transition from authoritarianism perceive the threat as internal, not external. And they also understand that there is no longer any economic advantage to be gained. If the present regime has already abandoned such a line, how much less attractive will it be to popularly elected governments that are likely to be more authentically nationalist?

This lack of a common conceptual framework can only reinforce persistent Brazilian doubts about the help it is likely to get from the United States for the economic development objectives that remain foremost among its priorities. Indeed, at the moment, the United States looks more like an enemy than a friend.

Brazil will resist graduation by all means possible, especially now at this time of economic troubles. It will continue to insist that the magnitude of Brazilian poverty in the Northeast makes the average per capita income criterion spurious. Its significant private debt is already a form of graduation. By participating in the recycling of petrodollars, it has already shared more than proportionally in putting into equilibrium a world economy reeling from oil-price shocks.

Brazil will use policy interventions like subsidies to pursue its export goals and its continuing domestic import substitution. Unlike Chile, Brazil is not a convert to free enterprise. That very state involvement could provoke new and more serious tensions with Washington if a Reagan Administration were to begin to object to the elaborate and increasingly trade-related rules governing foreign investment in Brazil. The theme is not new: exports and imports are influenced not merely by direct subsidies and barriers, but also indirectly by performance requirements imposed on foreign subsidiaries. For this very reason, some in the United States have called for mechanisms within the General Agreement on Tariffs and Trade to govern foreign investment. Protectionist business and labor leaders here have already called for unilateral action against unfair trade. The issue is a delicate one, because it imposes further limits on national autonomy just when nationalist sentiments can be expected to increase.

The most salient deficiency of the present policy is to close off the only means of constructively taking on Brazil's economic development priority. Brazil no longer expects bilateral official assistance from the United States; or special trade preferences

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beyond those offered to developing countries as a whole; or favorable arrangements for the transfer of private technology. But instead of looking to the multilateral institutions to help substitute for its own limitations in dealing with larger developing countries, the United States stands in active opposition. The limited capacity of the multilateral banks forces Brazil back upon the mercy of a more expensive and shorter-term commercial market that will continue to constrain its domestic options. Insistence upon a cautious and ideological International Monetary Fund limits its capacity to ease the difficult adjustment burden faced by many developing countries in a less buoyant international economy. It discourages Brazil even from serious consideration of the option of going to the Fund. U.S. reluctance to accede to a World Bank energy facility, because it limits the role and bargaining strength of private oil companies, means less oil exploration in the developing countries that most need it. Such a U.S. posture weakening the multilateral institutions' capacity to respond to new conditions adds up to a substantial and direct cost for Brazil.

In its zeal to reconstruct and revitalize the special bilateral relationship through a shared perception of the security threat, the Reagan Administration thus misrepresents present reality. First, there is no such shared perception, nor is there likely to be, whether we successfully promote closer relationships with the Brazilian military or not. Economic development remains the prime Brazilian objective, and there we are insensitive and even in active opposition. Second, our policy is completely unresponsive to the significant changes now under way in Brazil, and their implications for this relationship. Third, Brazilian enthusiasm for closer bilateral relations was, and is, quite limited. Brazil has had a steady dose of lowered expectations throughout most of the postwar period. Symbolic visits are no longer an adequate substitute for substance, as President Figueiredo's scheduled May trip to Washington will merely underline.

In the last analysis, the Administration ignores the importance of the international economy, and the impact of the United States upon it, at its peril. As long as domestic imperatives dominate so exclusively, Washington cannot expect allies to accept the indirect, but costly, consequences happily. Brazil is an unwitting and unwilling participant in the ongoing experiment in supply-side economics. U.S. lack of interest in multilateral economic coordination and cooperation will turn out to detract from our bilateral relations with Brazil. In a Brazilian environment of disillusion with international integration, what is now largely rhetoric in North-South forums may eventually be transformed into reality.

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In 1973, after a visit to Brazil, Secretary of State William P. Rogers commented, "We don't have any problems, really, at the moment, at all between Brazil and the United States." In short order, he was proven wrong. In 1982 Reagan Administration officials are similarly congratulating themselves. That interpretation may not hold up any better under the continuing strains of the international economy and of Brazilian economic and political transition. If it does, it will be despite, rather than because of, current U.S. policy directions.

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Joseph LaPalombara

SOCIALIST ALTERNATIVES: THE ITALIAN VARIANT

Italy's Socialist Party is center stage, brought there by political transformations at home and abroad. Internally, changes in the Italian electorate have caught the Communist Party and the Christian Democrats flat-footed, helping to plunge these major protagonists into crisis. Externally, the spectacular performance of the French Socialists, and the recent victory of the Greek Socialists, lead many to argue that in Italy too the Socialists represent the wave of the future.

Claims of this sort may appear excessive, even perverse. After all, the PSI is the smallest of Southern Europe's Socialist parties. In 1979 it captured less than ten percent of the national vote, compared with more than 30 percent for the Communists (PCI) and almost 40 percent garnered by the Christian Democrats (DC). Although the PSI has registered additional gains in local and regional elections held since that date, it rarely attracts more than 15 percent of the voters.

One might write off the recent ballyhoo about the Italian Socialists as so much self-advertising, or media hype, were it not for the singular problems faced by the PCI and DC. The previously uninterrupted PCI march toward a formal share of national power was halted in 1979, and the Communists have continued to experience electoral reversals, some of them dramatic, since then. The Christian Democrats are stalled too, not only electorally but also in that "renewal" of their party organization, leadership and public morality so often promised and so rarely delivered. The malaise of the Christian Democrats is symbolized by the advent of the Spadolini government in 1981, ending their postwar monopoly of the prime ministership.

Recently the Christian Democrats have gone to great pains to demonstrate more internal cohesion at the top than anyone would have thought possible, given the scandals and other tribulations they have faced. The PCI, too, is trying to put its best foot forward,

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particularly through a fierce attack on the U.S.S.R. over the Polish crisis. But Italy's two major parties are still trying to redefine their identities and future roles; they are in search of the touchstones that will stem their electoral reversals; they are at sea as to how to navigate in political waters made surprisingly problematical by the Socialists.

The PSI looks very healthy by comparison, and electoral gains are merely one indication of this robustness. Small though its gains may appear to the outsider, they have magnified significance in an Italy where minute electoral shifts often trigger cabinet crises and reshuffles, national elections, and coalition realignments. Moreover, the PSI's newfound prowess is connected to the party's reorganization, its program and especially the leadership of Bettino Craxi, its Secretary General. Taken together, these factors lead people to ask not whether the PSI will gain control of the national government, but when—and with what consequences.

Could Craxi become Italy's equivalent of François Mitterrand in France? Might he engineer the kind of upgrading of the Socialists and decline of the Communists that brought Mitterrand to power? What kinds of domestic and foreign policies would the PSI pursue in power? Would it insist on constitutional and institutional reforms, and if so which ones? Above all, what calibre and kind of political and economic management could one expect from a national government led by the PSI?

To shed some light on such questions, three topics require attention—the PSI's relationship to the Italian Communists; the quality of leadership represented by Bettino Craxi and other key Socialists who are emerging under his guidance and control; and the PSI's apparent domestic and foreign policy preferences.

II

Relationships between the Socialists and Communists could scarcely be worse than they are today. Deterioration began innocently enough a few years ago when Norberto Bobbio, a Socialist and also one of Italy's most distinguished and respected scholars, took to interrogating the PCI.[1] Bobbio expressed doubt regarding the extent to which Communist leaders understood Western democratic political philosophy and institutions. He asked the Com-

[1] See the series of articles by Norberto Bobbio in *La Stampa*, September 21, 1976, p. 3; September 22, 1976, p. 3; November 28, 1976, p. 3; and December 1, 1976, p. 3. His comradely questions to the PCI earlier appeared in *Mondo Operaio* under the following titles: "Esiste una dottrina Marxista dello stato?" August–September 1975, pp. 24–31; and "Quali alternativi alla democrazia rappresentativa?" October 1975, pp. 40–48.

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munists to explain, for example, how they could reconcile their vaunted conversion to "democratic pluralism" with their Marxist-Leninist traditions and culture.

Under Craxi's leadership, this comradely confrontation on the Left has escalated into a major strategy, designed to challenge the PCI in every possible sphere; to keep it on the defensive, to ask it to explain its shortcomings; to praise its progress toward democracy and reformism, but also to find residues of Leninism, of ideological dependency on the U.S.S.R; and to underscore that the PCI still has some distance to go before it can hope to achieve full legitimacy in a free, democratic society. Indeed, evidence that the PCI may indeed have become a reformist, democratic, non-revolutionary party is frankly placed in doubt, on the speculation that for the PCI these reformist steps may not be ends in themselves but merely the means of "revolutionary penetration."

Leaders of the PCI do not enjoy being patronized, much less lectured to, by a Socialist party less than one-third its size. However, Craxi and other Socialists who guessed that the Communists would not easily develop a coherent counter-strategy turned out to be right. The months since June 1981, when the PSI demonstrated that it could push ahead electorally essentially everywhere, have found PCI leaders plunged into increasingly confused and acrimonious debate over the question of what to do about the PSI. Enrico Berlinguer, and for the moment an apparent majority of the PCI leadership, prefer a hard line that would meet every PSI attack with a counterattack. Indeed, this approach would make the PSI an open target, not only in electoral campaigns but in the day-to-day operation of the PCI's considerable opinion-influencing apparatus.

Giorgio Napolitano, the PCI's parliamentary leader, is the key figure in a smaller group who prefer a softer, more subtle response, based on continuing dialogue and diplomacy with the PSI. Napolitano's differences with Berlinguer on this, as well as other issues, are widely reported in the Italian press. However, members of the dissenting group are at pains to insist that the ongoing internal debate should not be misconstrued as potential schism. The truth seems to be that the PCI is simultaneously pursuing a hard and soft line toward the PSI. This strategy is somewhat reciprocated by the PSI's left wing, which remains steadfastly committed to the idea that Craxi's approach represents potential disaster for the Left as a whole, and for the PCI in particular.

For the PSI, it is less important whether the open-conflict response of Berlinguer or the extended-hand effort of Napolitano

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prevails than it is that the PCI be kept off balance and reactive, and that the public debate center on the Socialists. Where this occurs, it blends with a PSI strategy which, under Craxi's dominion, involves open antagonism toward the PCI. The long-run goal toward which this strategy aims is precisely that of having the PSI outdistance the PCI electorally; its short-run aim is to have the PSI replace the DC (or at least alternate with it) as the party around which governmental coalitions will be formed. This latter step might be taken in a cabinet reshuffle. Alternatively, it is expected by the Socialists to result from the outcome of the next elections, especially if they occur in the spring or early summer of this year.

Those who doubt that these are realizable ambitions easily turn scornful, noting that as recently as a few months ago the idea of the PSI governing Italy would have produced derisive laughter almost everywhere. To be sure, the evidence is growing that Craxi is molding if not a new PSI, certainly a remarkably different one. Nevertheless, the doubters insist that the Mitterrand analogy won't fly because, simply put, Italy's PCI is not the French Communist Party. Just as Togliatti was not Thorez, Berlinguer is a far cry from Georges Marchais. In sharp contrast to the PCF, the PCI is relatively free of Stalinist residues; it remains relatively friendly toward Catholicism and ready to pursue a strategy of broad alliances at home and in Europe; it is in favor of the institutions of the European Community, has accepted NATO, and has avoided declarations that strike fear into the hearts of others.

Above all, the doubters argue, the PCI has followed the prescription of Antonio Gramsci, and thereby established a "presence" in every sector of Italian society. In doing so, it has brought into being, if not Gramscian "hegemony," then surely a formidable apparatus with which the PSI can scarcely hope to compete. The apparatus includes human and organizational capabilities that have been the envy of other political parties—indeed, they are a key reason why other parties fear the presence of the PCI in a national governmental coalition. In short, the doubters repeat, the PCI is not the PCF, and Berlinguer will never be as accommodating to Craxi as Marchais was to Mitterrand.

As his purpose unfolds, Craxi reveals a willingness to carry his campaign into territories and issue areas that his PSI predecessors would have found unthinkable. In the Communist citadel of Bologna, last summer, the Socialist contingent in the municipal council voted against a PCI-sponsored resolution opposing nuclear missiles in Italy, thereby defeating it. Craxi followed with a ringing speech, putting the Communists on notice that the PSI is prepared

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to challenge them even in the Red Belt (Tuscany, Emilio Romagna and Umbria), where the PCI is strongest.

The Craxi approach is supple, some would say inconsistent and contradictory. On the question of preserving or scuttling left-dominated local or regional governments, the PSI rejects a set formula and plays each situation in its turn. A threat to abandon cooperation with the PCI here is followed by a last-minute decision to preserve a PCI mayor there. If the PCI expresses approval of a Craxi decision to keep the communes of Rome and Genoa in PCI hands, it soon cries foul when a leading Socialist suggests that Nilde Jotti, the Communist speaker of the Chamber of Deputies, should be removed. The trick has been to keep the tension high and to assure that the drama itself centers on the PSI. So far it has been executed with remarkable skill, and with relatively few false steps.

In view of this strategy, it is curious that so many in Italy think that it is largely up to the PCI to determine what its relationship to the PSI will be. It is precisely this pattern that Craxi and his closest supporters intend to change. Craxi truly means to reverse the electoral ratios; he believes this requires a frontal attack against the PCI: he wants the PSI to alternate with the DC in the control of governmental coalitions; and he wants an ironclad agreement with the Christian Democrats that will keep the PCI marginal to the governmental system. Above all, he wants to short-circuit any more private exclusive bargaining between the PCI and DC, of the kind that took place during the heyday of the "Historic Compromise" maneuvers.

It is a serious misreading of contemporary Italy to believe that the PCI always counts for more than the PSI. And it is highly dubious to assume, as so many still believe, that the voters are prepared to be severe with a PSI that may fragment the Left, or become too cozy with the discredited Christian Democrats. Craxi may be a high roller, with the odds against his strategy working, but the cards the PSI is playing are strong ones.

III

Two factors from which the PSI is clearly deriving very notable benefits are, first, Bettino Craxi himself and the form of leadership he brings to the party; and second, certain structural changes in Italian society and the Italian electorate.

No one today can contest that Craxi is already one of the most effective leaders the PSI has turned up in decades—a major

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protagonist in Italian politics who will have to be reckoned with for some time to come. Relatively obscure and colorless until recent years, he emerged in the late 1970s as the compromise Secretary General of a PSI debilitated by internal factionalism and handicapped by an aging leadership with little electoral appeal. As recently as 1979, there were many Italians, Socialists included, who saw the PSI as doomed never to get more than ten percent of the national vote; indeed, Craxi's fate as the PSI's leader turned in part on whether he could reverse its electoral fortunes.

Against this background, Craxi's achievements have been not only remarkable but downright spectacular. Having persuaded older and unsuspecting leaders to name him the PSI leader, in five years he has managed to:

1. Abolish the old factional structure of the party and recreate a new majority faction, led by himself and openly called "revisionist."
2. Rout the PSI Left, by co-opting some of its leaders, defeating and exiling the rest.
3. Transform majorities in local PSI organizations so that, at the April 1981 Party Congress, in Palermo, his faction captured 70 percent of the vote. This proportion is now reflected in the PSI's national governing bodies. That is, Craxi is solidly in control everywhere.
4. Persuade the Congress to revise the party's bylaws, so as to permit him to be elected directly by the delegates. This guarantees that Craxi cannot be removed from office until the next Party Congress is called three years hence.
5. Introduce a high degree of discipline—some would say "democratic centralism"—into the party. That Craxi brooks no serious deviation was shown last October when a number of left-wing PSI members of parliament, publicly critical of his foreign policy line, were summarily dismissed from the party.
6. Push the PCI and DC into the political wings, place the PSI center stage and in the process become the most interviewed, discussed, praised and excoriated political leader in Italy.
7. Bring into positions of responsibility within the PSI a younger generation of leaders personally attached to or tightly controlled by him. Even on the PSI Left, he has brought younger leaders forward, not only in the party but also in the cabinet. These new leaders may turn out to be Craxi's most enduring legacy to a party that was by any test in the throes of arteriosclerosis.[2]

[2] Craxi himself provides a short, candid and interesting summary of these achievements in *Avanti!*, December 10, 1981, pp. 2-3.

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These are not negligible feats, as even Craxi's detractors recognize. Many even within his own party score him as an exhibitionist, a Janus-like figure who will construct and topple governments as it may suit his ambitions, and as a leader who will scarcely correct the PSI's dubious political morality. To others he appears not as a shrewd and ruthless political manipulator, but rather as a gifted and courageous leader who may grow into statesmanship. And to a great many Italians he seems to emerge as a positive and appealing figure, notwithstanding many personal attributes that Italians usually consider unappealing.

What is undeniable is that Craxi seems to have understood better than most of his contemporaries how much Italy has changed, and what these changes portend by way of challenges and opportunities for mass political parties. Briefly noted, the changes include the secularization of Italian society; the decline of social class as a key factor establishing the political identity of the individual; the depolarization of the political system itself; and the decline of political party identification as the major factor conditioning the voter's electoral choices.[3]

The evidence of political secularization began with the popular referendum on divorce a few years ago, and is by now overwhelming. Neither the Christian Democrats nor the Catholic Church can pretend to dictate how Italians will vote on issues like divorce and abortion that go to the heart of the concept of the family. What may be less obvious is that secularization impulses in Italy are felt not only by Catholics but by members of the Marxist "church" as well. If one can distinguish between votes based on deep-seated beliefs or ideology and votes based on other considerations, it seems apparent that those in the second category are rising relative to the others.

Another way of putting this is to note that Italian politics are simply not as polarized as in past years, whether by concepts of class warfare, anticlericalism, urban-rural tensions, or extreme regional economic and cultural disparities. In the past, Italy's

[3] There is a growing literature on this topic. The reader might fruitfully consult the following English-language items: H.R. Penniman, ed., *Italy at the Polls: The Parliamentary Elections of 1976*, Washington: American Enterprise Institute, 1977, especially chapters by Giacomo Sani, Giuseppe DiPalma, Gianfranco Pasquino and Samuel Barnes; H.R. Penniman, ed., *Italy at the Polls, 1979: A Study of the Parliamentary Elections*, Washington: American Enterprise Institute, 1981, especially chapters by Giacomi Sani, Joseph LaPalombara, Gianfranco Pasquino, Karen Beckwith and Samuel Barnes; P. Lange and S. Tarrow, eds., *Italy in Transition: Conflict and Consensus*, London: F. Cass, 1980; R. Putnam, R. Leonardi and R.Y. Nanetti, "Polarization and Depolarization in Italian Politics," paper delivered at the 1981 Annual Meeting of the American Political Science Association, New York, September 1981; S.H. Barnes, "Left, Right and the Italian Voter," *Comparative Political Studies*, Vol. 4, No. 2, pp. 137–75.

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degree of polarization, of mutually exclusive and antagonistic political groupings, was reflected in the existence of Communist, Socialist, Christian Democratic and laical subcultures. Today these subcultures are clearly breaking down on all sides.

As polarization diminishes and political subcultures become less watertight, strong identifications with specific political parties weaken as well. Political parties that fail to understand this, or that try to preserve past structures, do so at their great risk. With specific issues, or the personalities of candidates, becoming more important to voters than a party label or emotional attachment to a given party, only a flexible party will survive such changes electorally. The more rigid a party's ideology and the less disposed it is to make compromises or become a "catchall" party, the tougher is likely to be its electoral sledding.[4]

In the Italian context the parties least responsive to these transformations are the PCI and DC. By comparison the PSI, especially since 1976, has become highly flexible in making direct appeals to "opinion" or "issue" voters. It has therefore been much more successful in emulating an approach to the electorate pioneered by the Italian Radical Party, whose leaders understood before anyone else how modern and secularized the electorate had become. In addition, because Italy appears less ideologically polarized, because views about political issues have been converging toward the center, the PSI is strategically placed to take advantage of this shift.

It may well be that electoral support captured on this sort of ad hoc, catch-as-catch-can basis is less stable than support based on strong party identification. It may also be that both the PCI and the DC retain strong reservoirs of dedicated voters who will not easily abandon these parties, for the PSI or any other alternative. Nevertheless, if the number of "floating voters" is up, if the pool of nonvoters grows larger (as it has in Italy), these are obviously places where the PSI is going in search of support. In order to attract them, the PSI has demonstrated a capacity to be highly pragmatic in its policy choices.

IV

The PSI likes to think of itself as "the party of governments and of governability." Its leaders are proud that throughout Italy, at all levels of government, they form the key group around which

[4] See A. Martinelli and G. Pasquino, eds., *La politica nell'Italia che cambia*, Milan: Feltrinelli, 1978; P. Corbetta, "Novità e incertezze nel voto del 3 giugno: analisi dei flussi elettorali," *Il Mulino*, Vol. 28, September-October 1979, pp. 715–48.

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coalitions are organized. In the national government, the PSI justifies its return to collaboration with the DC on grounds that nothing positive can occur in political or economic management until a minimum level of stability—governability—is introduced.

To many Italians, this claim has a hollow ring. They point out that numerical majorities excluding the PCI are not something new, and that coalitions rarely fail because majorities are found wanting on votes of confidence. Coalitions fail because parties to them take to bickering over policies and fall out—because partners do not agree about basic policies or because certain proposals are not enacted, or, if enacted, not implemented. They fail because governments do not secure that minimum social consensus that difficult choices and policies require. They fail when power shifts, even slightly, among internal party factions. Above all, they fail *outside* of parliament itself, when the leaders of coalition parties decide to have a government crisis.

This being so, many are now asking what it is about the PSI and its commitment to "governability" that might turn these patterns around. Socialists reply that one must assess the party's restatement of its own identity and goals, and the policies it has advocated and pursued since its reintegration into a Center-Left government.

At Palermo last April, the PSI orchestrated its own transformation. The "Theses" adopted at the party's 42nd Congress specify that it is committed to "pragmatism, gradualism, and reform." For a party whose past is riddled with "maximalist" fiascos and even disasters, this amounts almost to a rejection of classical Italian socialism.

Not only do the "Theses" set the PSI on a new course; they boldly declare that the PSI is now different from the rest of the Left, and they challenge the PCI to follow its lead. Here is an example:

> We do not have—nor do we aspire to have—a totalizing philosophy that pretends to give answers to all questions: it is exactly for this reason that we are not a church, an institution that promises collective salvation, but rather a party open to all of those who, whatever may be their religious faith or metaphysics, accept the values and agree on the fundamental values of democratic socialism. . . . We accept gradualism because we hold that society is not a machine that can be taken apart at will but rather a complex organism governed by the principle of continuity.[5]

The "Theses," Craxi's concluding remarks to the delegates at Palermo and the party's subsequent behavior do indeed reveal a

[5] "Tesi per il 42° Congresso, del PSI," Supplement to *Avanti!*, February 22, 1981, p. 9.

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high degree of pragmatism, so much so that critics have not hesitated to use words like "opportunism" and "schizophrenia."

Regarding domestic policies, it is abundantly clear that, even with its contradictions, the PSI posture is some distance from that of Mitterrand and Pierre Mauroy in France. Not only is the PSI now officially opposed to nationalizations; it seems prepared to return specific nationalized industries to the private sector. A dramatic step in this direction was recently taken by Gianni DeMichelis, the dynamic Socialist Minister for State Holdings, when he engineered the sale to a private group of the state-owned equity in the great electric power firm, Montedison. Documents prepared under DeMichelis' direction suggest that similar events will occur in other sectors.

It is not clear whether the DeMichelis campaign is PSI policy, approved by Craxi, or something of his own doing. One interpretation holds that this program is an integral part of Craxi's effort to win the support of leading exponents of Italy's private industrial sector. Another is that, as perhaps the leading challenger to Craxi's leadership of the PSI, DeMichelis is independently wooing the same supporters. In any case, Socialist policy statements boldly declare that the market and privately owned firms are compatible with socialism; indeed, they add that nationalizations that create risk of "bureaucratic collectivism" are not.

Although the PSI does not reject the welfare state, it wants to reexamine its underlying assumptions, to reduce or abolish its excesses and irrationalities. Although it subscribes to a planned approach to economic development, it flatly rejects the model of highly centralized, *dirigiste* direction.

Recent PSI language on economic policy even has more than a little "supply-side" ring. The PSI has now placed a well-known economist, Francesco Forte, at the head of its economic policy division. As a leading magazine notes, this pleases the Bank of Italy. Forte himself makes no bones about rejecting "totalizing ideologies," shopworn notions of class conflict, old-fashioned populism, and excessive governmental interference with enterprise at every level. He flatly declares that there is too much state ownership of industry and that industries would function better if they were privately owned. He also turns his guns on the PCI, accusing it of vacillating between *ouvrierisme*, on the one hand, and a neo-mercantilist approach to planning that would create and maintain a corporatist structure in Italy. Pressed to say whether the party's economic approach is closer to Mitterrand or to the more moderate French Socialists like Jacques Delors and

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Michel Rocard, Forte indicates that the model, if one insists, is closer to Helmut Schmidt.

In practical operational terms, however, it is evident that the PSI's approach to economic management is considerably at odds with that of the Christian Democrats, the major partner in the present government coalition. The PSI Executive Committee, for example, endorsed Spadolini's "Pact Against Inflation," but only on the assumption that the central problem to be attacked is unemployment. Thus, it supports a ten-billion-dollar three-year public spending program that aims at job creation—while at the same time the ten-point program offered to the Executive Committee by Forte expresses optimism about Italy's economic condition and suggests that the government reduce welfare subsidies and outlays to local authorities, combat worker absenteeism and increase the prices paid for public services.

Such optimism, as well as some of the internal contradictions in the program, has brought criticism from within the PSI itself. More important, perhaps, is evidence that the PSI approach to Italy's soaring economic problems is causing high tension within the Cabinet itself. The respected Minister of the Treasury, Nino Andreatta, may well wonder what the PSI's commitment to stability and governability can mean in the light of the party's contradictory statements about economic management and its open attacks on his—and the government's—policies. Italy's dilemma remains that of devising a set of domestic policies around which a coalition government that excludes the PCI can reach enough agreement to move ahead despite Communist opposition.

Another major area of domestic policy debate involves institutional and constitutional reform. Along with its slogans about governability, and morality in public life, the PSI has advocated what it calls "The Grand Reform." It is not yet clear which specific reforms the PSI would pursue if it gained control of the government. Bettino Craxi is said to encourage other Socialists to advocate certain changes to see how they sit with the public, but which of these he would make his own as prime minister is still a mystery. Nevertheless, the "Theses" and Craxi's response to the debate at the April Congress suggest that the PSI favors a redefinition of the powers of the two houses of the legislature; a shift of powers to the executive; a reorganization of the office of prime minister; a streamlining of legislative procedures; the constructive vote of non-confidence (i.e., that a government cannot be overthrown unless its opposition commands a majority for an alternative); a reduction in the discretionary powers of investigating

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magistrates; and a "threshold" requirement in Italy's proportional representation electoral system (specifically that any party has to get five percent of the votes to qualify at all).

The Federal Republic of Germany obviously serves as a model for many of these proposals. The Socialists are convinced, as are many others in Italy, that law and institutions do make a difference. Which reforms should be adopted, and precisely what differences they will make, are hotly debated questions. For example, neither the abolition of secret ballots on votes of confidence, nor the introduction of the constructive vote of non-confidence, will preserve cabinet stability or prolong the lives of governments if decisions to topple them are made by coalition party secretaries, rather than by parliament itself.

In any event, the PSI proposals generate much opposition not only because they conflict with reforms suggested by other parties; they are opposed because so many of them are patently self-serving and are therefore seen as threats to the other parties, including the smaller "laical" parties. Among the latter, only the Social Democrats (PSDI) seem disposed to accept the kind of hegemony that some Socialist proposals, if adopted, would permit the PSI to exercise over the others.

The PSI approach to domestic politics, and its emphasis on the need for institutional reform, is partly aimed at rebutting the PCI claim that catastrophe is around the corner. It also seeks to refute the idea that the situation is so grave it requires that the PCI be included in the government, or at least that a consensus that includes the PCI be assured regarding major policies.[6]

V

If the PSI's domestic policies are tailored to differentiate it from the PCI, and to keep the latter defensively off balance, this is doubly the case regarding foreign policy. The party underscores its ties to the Socialist International, and, with qualifications noted below, applauds that organization's more assertive role in world affairs. It welcomes European Socialist initiatives to give

[6] In several widely noted public pronouncements, Giovanni Agnelli of Fiat, once a strong advocate of government by broad consensus, argues that it is essential to effect institutional reforms that will make possible government by majority. Speculations that Agnelli may be in collusion with Craxi seem unfounded, however. Unlike many within the PSI, Agnelli is inclined to make painful choices about the welfare state. More important, Agnelli aims at reducing the same clientelistic, corporatist, patronage-centered politics of which the PSI under Craxi remains a major practitioner. See G. Agnelli, "Chi non governa è perduta," *Espresso*, January 10, 1982, pp. 90–93. Earlier Agnelli statements are found in Italy's major newspapers, October 10–12, November 29 and December 31, 1981.

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Europe, and the European Community, a more cohesive and independent role on the major issues that threaten world peace. It believes that Italy itself should better exploit its special relationship to and understanding of the Arab world.

Regarding the United States, the PSI expresses the hope that it will reopen negotiations in favor of nuclear arms limitations; it urges the United States to join with leading Latin American countries to oppose dictatorships, military or otherwise; although it supports the Camp David approach in the Middle East, the PSI believes that it fails to confront, as any solution must, the problem of the Palestinians. In addition, Craxi states that America must be more understanding of the pressures and the ties that lead Europe, Italy included, to seek a wide variety of relationships with Eastern Europe, as well as more willing to recognize that, among the Western nations in search of a common good, there must be equality of treatment in negotiations and decision-making.[7]

On pronouncements of this kind, one finds the Socialists and Communists close together. But such agreements are superficial. Below the surface, the Craxi approach is to highlight situations that reveal Communist ambiguities, or that suggest that the PCI remains unable to free itself from international political strategies emanating from or directed by Moscow. Socialists, therefore, press the PCI to explain why it falls short of denouncing Soviet behavior in Southeast Asia, Africa or Afghanistan as imperialistic, and why the Communists do not condemn extremist destabilizing movements in Latin America.

The PSI comes out ringingly in favor of the Atlantic Alliance and in opposition to any form of neutralization or "Finlandization" of Europe. Any evidence of equivocation or qualification on the part of the PCI is interpreted to mean that, whatever else may be true of the PCI's domestication, it remains an unreliable partner of the country's democratic, Western-oriented political parties. The underlying and persistent challenge has been: show us that you are opposed to the Soviet Union without qualification. To which the PCI's response has been: our record speaks for itself and will not be added to on the basis of demands from the Socialists, or from anyone else.

On matters involving the Western military alliance, no Christian Democrat has been a fiercer pro-Western defense minister than the Socialist incumbent, Lelio Lagorio. The issue of theater

[7] See the "Theses" to the 42nd Party Congress and the speech by Craxi there, *Avanti!*, April 23, 1981.

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nuclear forces (TNF) offers a dramatic example of Socialists and Communists standing toe-to-toe. In December 1979, the PCI opposed, and the PSI supported, Italy's decision to accept the siting of intermediate-range U.S. cruise missiles on its territory. Last September, Enrico Berlinguer's negative references to that decision set loose a storm of acrimony.

On the current Polish crisis and the projected gas pipeline from the U.S.S.R. to Western Europe, the PSI has taken a harder line than either the Socialist International or the West German and French governments. It has formally dissented from the International's official statement opposing inflammatory rhetoric concerning Soviet involvement in Poland, and come out against Italy's joining with others to purchase pipeline gas.

But the Polish crisis, and the PCI response to it, have now made it harder for the PSI to depict the Communists as too closely and inextricably tied to the Soviet Union. The PCI's public attacks on the U.S.S.R. escalated so rapidly in December and January that the Craxi group found itself reaching for straws to support its claim that the rupture was still unpersuasive. In mid-December Craxi declared that "half-judgments were of little value," and that one (i.e., the PCI) had to acknowledge that "the basic cause of the Polish tragedy is precisely Soviet imperialism."[8]

At the end of the year the PCI Executive Committee issued a bombshell statement, not just excoriating the military coup and repression in Poland but, more important, announcing that the historical phase ushered in by the October Revolution had ended and that a new phase of socialist development must begin. In the middle of January the PCI Central Committee issued its own ringing repudiation of the U.S.S.R.'s Polish interference as well as reiterating that the historical phase inaugurated by the October Revolution had lost its propulsive force. These official PCI actions led to an unprecedented *Pravda* blast from Moscow and to a reasoned, uncompromising reply from the Italian Communists. In Europe, as well as in Italy, these events were seen as a profound redefinition of the PCI's relationship to the U.S.S.R., as well as cementing still further that party's image as an autonomous democratic organization.[9]

[8] Reported in *La Repubblica*, December 16, 1981, p. 10. On the evolution of the PCI's statements regarding Poland and the U.S.S.R., see *L'Unità*, December 10–31, 1981.

[9] For early reactions to PCI statements, see *Corriere della Sera*, December 16, 1981, p. 1 and December 30, 1981, pp. 1–2. *Pravda's* attack is carried verbatim in *L'Unità*, January 25, 1982, p. 2, and the PCI response is found in *L'Unità*, January 26, 1982, pp. 1, 16. For a sampling of international press reporting on these events, see *La Repubblica*, January 27, 1982, pp. 1–4.

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Initially, Socialists close to Craxi sought to minimize these events by arguing that the PCI steps were 25 years late and that many PCI members no doubt disagreed with their own national leaders. But following Italian and worldwide reactions to the PCI-U.S.S.R. collision and *Pravda's* "excommunication," Craxi himself acknowledged before his Executive Committee that the PCI had given a clear and radical manifestation of its autonomy. He added that, if this transformation was to benefit the Italian Left, the PSI as a party would have to get even stronger. It shortly became clear that the PCI, to gain complete legitimacy with the PSI, would have to support Craxi as premier within the present five-party coalition, from which the Communists are excluded.[10]

Socialist Party positions on foreign affairs—its long-standing assertions that terrorism is probably orchestrated by Moscow; its opposition to Western dependence on the U.S.S.R. for energy; its support for TNF in Italy; and its suggestions that the PCI confrontation with Moscow is just a tactic designed to gain the latter more legitimacy in Italy and the West—constitute a striking parallel with the posture assumed by the Reagan Administration. This has not gone unnoticed in Italy. Indeed, the party looms as a more steadfast supporter of NATO and of U.S. policies than is true of most of the European Left and perhaps even some of the Right. If the polls are correct, and the Craxi group's claims can be credited, this pragmatic approach has spurred the PSI's popularity.

VI

Is Craxi, then, potentially Italy's Mitterrand? Is this man capable of making the Italian Socialists the dominant force on the Left and in Italian politics? One is tempted to answer that, if anyone can, it is he. His track record thus far speaks for itself; he and his closest associates, many of them quite young, have shown a remarkable capacity to hold their own against much more seasoned politicians, not only inside the PSI but in the broader political context as well.

Nor will the Craxi group lack the material resources to push their campaign forward. They can and do use political power not only for ordinary patronage but also to gain a piece of control over the mass media, as well as important industrial, trade union, cultural and educational sectors. The impulses in this direction

[10] See Craxi's speech to the PSI Executive Committee, and responses to it, in *Avanti!*, January 30, 1982, p. 1 and pp. 2–4. See also Emanuele Macaluso's reply to the idea that the PCI would support a Craxi premiership within the present coalition. *Rinascita*, February 5, 1982, p. 6.

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are very powerful in a country where *sottogoverno*—that vast, complex and obscure system of patronage and party finance—is a hallmark of the political system. Few in Italy take the moral preachments of politicians seriously. In the case of the PSI under Craxi, most of them are betting that history will repeat itself and that, as in the past, the PSI will be found wanting when its vaunted public morality is subjected to closer scrutiny.

Craxi's detractors often level criticisms that are superficial, even frivolous. As Italy's most visible, most frequently interviewed, most sought-after politician, he represents not only the center of attention but also the most obvious and attractive target in Italian politics. He is easy to dislike in an Italy that prefers to see arrogance masked by smiling cordiality. He is easy to caricature, and Italy's brilliant political cartoonists are having a field day; he is easy to compare to *Il Duce*, the only other balding Socialist who defied his PSI elders, and came down to Rome from Milan to become prime minister without having held a previous cabinet position. There is also that strange negative charisma that in Italy often causes those leaders described as least *simpatico* to attract the most—and the most fanatical—followers.

Not all criticism is superficial, lighthearted or mean-minded. Among the more disquieting aspects of the PSI under Craxi has been its puzzling stance on the issue of terrorism. From at least the time of the kidnapping and murder of Aldo Moro in 1978, many Italians have felt the PSI response to terrorism to be not just ambiguous but dangerous to the integrity of the state. Flaminio Piccoli, the Christian Democrat Secretary General, recently reminded the Socialists of their questionable behavior during Moro's ordeal. But those who worry about the PSI's alleged lack of a "sense of the state," as the Italians put it, can point to relatively recent evidence as well—PSI willingness to negotiate with those who would destroy the state; agreements with the terrorists to publish their documents and demands in newspapers controlled by the PSI; pressures on other newspapers and television stations to do likewise; and cooperation with members of the Radical Party who enter Italy's prisons to talk and to negotiate with terrorists and to act as their go-betweens.[11]

Socialist behavior of this kind is all the more puzzling in that a centerpiece of the Craxi's group's public posture has been sweep-

[11] On the Piccoli attack, see *L'Unità*, February 8, 1982, pp. 1–2. For a more recent example of PSI responses to terrorism, see the major newspapers of Italy for January–February 1981—in connection with the kidnapping of Judge D'Urso. A revealing interview with the then editor of *Corriere della Sera* is found in *La Repubblica*, January 20, 1981, p. 7. The PSI's views on terrorism are recently and extensively reported in *Avanti!*, January 16, 1982, pp. 1–5.

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ing, insistent and not-often-documented claims that Italy's terrorism has international ties and is to some extent orchestrated from the outside. Furthermore, the PSI has not hesitated to attack members of the cabinet, including cabinets in which they have membership, of mishandling the terrorism problem. Side by side with such tactics, one finds PSI leaders scornfully dismissing those who refuse to negotiate with, or make other concessions to, the terrorists as "The Party of Death"—as if Italians who refuse to knuckle under were willing the murder of yet another public official.

There is also justifiable skepticism on the vital issue of economic management. Italians who in large numbers admired the integrity and competence of Franco Reviglio, a recent Socialist Minister of Finance, were not reassured when he was excluded from the Spadolini Cabinet. They are equally perplexed by the PSI's shifts and contradictions regarding how to approach the ailing economy. How conservative or populist the PSI solutions might be too often depends on which Socialist minister is speaking, and on which day of the week. Furthermore, since neither Craxi nor his deputy, Claudio Martelli, are Cabinet members at all, what they may have to say about the economy can and does confuse the picture even more. The Socialists claim, with some justification, that the PCI's so-called Third Way to socialism is highly ambiguous. However, it does not help very much to be clearer than the Communists, if one is thereby shown to be clearly wrong.

The ambivalence toward Craxi felt by those on the more conservative side of Italian politics is nicely expressed by Indro Montanelli, the editor of *Il Giornale Nuovo*. Having urged his readers to support the PSI as the best way to fend off the PCI, he adds that Italians who don't trust Craxi are probably correct. He writes:

> We do not trust the socialists at all. We know very well that at any moment they can fall back into a maximalist epilepsy and that Craxi, himself, if he found himself in trouble within his party, would be able to shift its direction and mount the barricades. Wasn't it a Socialist who said of the socialists, "I am their leader, therefore, I follow them"? But we are equally convinced that if, after the next elections, things go well for him, Craxi will definitively liquidate the philo-communism that is still nested within the PSI: he is a man to do it in a sweeping and even brutal manner. One thing is certain for us today: to array ourselves *against* the socialists means siding with Communists.[12]

[12] *Il Giornale Nuovo*, April 17, 1981, p. 1. Later (June 6, 1981, p. 1), Montanelli denied that he had urged his readers to vote Socialist, pointing out that whenever the PSI has made important choices, they tended to be the wrong ones. Nevertheless, when he thinks of alternative Socialist leaders to Craxi, he wishes the latter good health.

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On the Left as well, Craxi generates suspicion. The qualities that Montanelli praises are the same ones that signal a willingness to fragment the Left. Within his own party Craxi is attacked for having abandoned his earlier commitment to the "Left alternative," which would mean the PSI coming to power, and perhaps achieving the premiership, not with the Christian Democrats, Social Democrats and Liberals, but rather with the Communists and the Republicans.

On this particular issue, the PSI under Craxi is clearly a long distance from Mitterrand. For five years or more he has made it clear that Italy can and should be governed not only without the PCI sharing cabinet responsibility but also without the PCI's consensus as to public policies. The strategy would require a deep, ironclad agreement between the PSI and the Christian Democrats, which is exactly what Craxi has been after, thus far unsuccessfully. Such an agreement might well keep the PCI out of power for another decade or more. Italians who fear this believe that the step would involve not just Socialist acceptance of more Christian Democratic "trasformismo," but also a deep split on the Left, with consequent political and economic turmoil.

Thus, Eugenio Scalfari, Italy's premier newspaper editor, makes no bones about claiming that, under Craxi, the Socialists have wandered a long distance from the interests and ideas in Italian society they are supposed to represent. Referring to Craxi, he says:

> For five years he has made of autonomy the *porro unum* of his action. He has made Proudhon uncomfortable; he has cut off Marx's beard; he has replaced the hammer and sickle with the [red] carnation; he has courted the industrialists; he has sung serenades under the windows of the Radicals and *Lotta Continua*; from time to time he has displayed the soul of the dove and the guts of "the German." And above all he has not spared a single shot against the PCI fortress, because it was against the Communists above all that he had to protect socialist autonomy. . . . He continues to depict the PCI as a party little more than "Sovietic," against every truth and evidence.

Scalfari asks whether, after all of this, the PSI may still be said to belong to the Left; he replies that "It is enough to read the hosannahs that Montanelli devotes to Craxi."[13]

In sum, the PSI has traversed a zigzag path to emerge as an avowedly catchall party whose leadership has set it on a new course. That leadership is no doubt convinced that more voters are to be won where Montanelli is located than won (or lost) on the Left that Scalfari represents. It is also willing to gamble that,

[13] *La Repubblica*, April 19/20, 1981, pp. 1–2.

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with the decline of strong party identities and subcultures, the Italian voters themselves are zigzagging. The new trick is to understand that the "Left" is not a fixed point in an ideological spectrum that has become more refracted. Because of this, a party like the PSI that seems to be poised almost everywhere at once would seem to have the advantage.

All of which suggests that Bettino Craxi is not only an able political leader and uncommon strategist, but also a highly complex, multifaceted personality. His arrogance as well as his ambiguousness are indeed very much like Mitterrand's, and it is worth underscoring that many of the same criticisms made of Craxi were once leveled at Mitterrand during the years of the latter's reconstruction of his own socialist party. Unlike Mitterrand, however, Craxi still confronts a Communist Party of extraordinary leadership, prestige and resilience, one so clearly different from the French Communist Party that Mitterrand himself might today identify more with the PCI's positions than with those of the PSI.

In the last analysis, no one can predict with confidence where Craxi is headed or where he will wind up. In placing the PSI at the center of political controversy, he has exposed not only himself and his close associates, but the whole party as well. If he should attain the prime ministership, much would depend on the circumstances—it would be one thing if he came to power on the heels of new elections in which the PSI had made striking further gains, another if he did so as the leader of a still-small minority party in charge of a national coalition dominated, like the present Spadolini government, by the Christian Democrats.

His power and leverage would be significantly greater in the first case than in the second. But in either situation he would still confront the same problem that has confounded all recent Italian governments, that of dealing with the Communists in opposition. Indeed, a government headed by the PSI might have even greater difficulty in handling this central problem, because of the extreme confrontation on the Left, and especially among the trade unions, that would be likely. The acid tests of Bettino Craxi's capacities as a political leader and statesman still lie in the future.

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COMMENT AND CORRESPONDENCE

NUCLEAR WAR-FIGHTING VERSUS CONVENTIONAL DEFENSE

To the Editor:

Spurgeon M. Keeny, Jr.'s and Wolfgang K.H. Panofsky's article, "Mad versus Nuts," in your Winter 1981/82 issue is a timely evaluation of our present state of knowledge about nuclear weapons, especially regarding the collateral effects of even minor nuclear explosions and the pressures for escalation. I believe the authors to be right in doubting whether the horrors of nuclear war have penetrated deeply "even the thinking of knowledgable policymakers" at least in Europe.

This leads to the question what we—the Europeans—can do about making "the nuclear world more stable and less dangerous." In my view the most important contribution would be to strengthen our conventional defense to a degree that would make the first use of theater nuclear weapons under all circumstances unnecessary. The present situation in which, as Christoph Bertram states in his article in the same issue ("The Implications of Theater Nuclear Weapons in Europe"), "the option for a limited first strike with nuclear weapons remains essential for effective deterrence in Europe" is, in the long run, unacceptable. One reason for this is given by Mr. Bertram himself: "Nuclear weapons do not provide an effective remedy for conventional military weakness."

I should like to mention another, in my view, much more compelling reason: To use nuclear weapons first is absolutely unethical, and this the more so as nobody can preclude with sufficient certainty escalation even after a very limited first strike. (I should add that I consider President Truman's decision in 1945 an exception. There was no escalation possible at that time, and his motive to save American lives is entirely plausible to me. I wonder if we would not be even more unconcerned about the effects of a nuclear war had we not learned by that tragic event about the apocalyptic consequences of atom bombs.)

The purpose of our alliance is to defend our peoples and the values to which we adhere. One cannot convincingly defend these values by unethical means.

One argument raised against strengthening our conventional defenses sufficiently has always been the high cost involved. This, in my opinion, is an ostrich-like attitude because the ultimate cost of economizing in conventional defense would certainly be immeasurably higher. And the cost might not be so high after all with the introduction of a new generation of precision-guided conventional weapons as an effective antitank defense. Moreover, I do not share Stanley Hoffmann's view (in the same Winter issue) that an improvement of the conventional balance would—or should—be resisted as decoupling. We must of course maintain our second-strike capability in the whole range of nuclear weapons as long as the other side keeps them ready to launch. For this reason I believe we should strictly adhere to the NATO double decision of December 1979 and to the timetable agreed upon. Our effort to strengthen our conventional defenses should not be regarded as an alternative to this decision but as a parallel policy.

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One word about the so-called peace movement, which unfortunately is much more likely to destabilize and thereby to induce a conflict than to promote peace. In my view the most effective way to convince the bona fide members of the peace movement that their efforts are really counterproductive to their own professed goals would be to stand ourselves firmly on moral ground. A solemn resolve—as a firmly established doctrine of our alliance—never to use nuclear weapons first would be a necessary premise for this.

HEINZ L. KREKELER
Munich, West Germany

Mr. Krekeler was formerly West German Ambassador to the United States and a member of the Euratom Commission.

CANADIAN NATIONALISM

To the Editor:

Harald Malmgren and Marie-Josée Drouin regrettably contribute to the serious problem of misunderstanding they bemoan in "Canada, the United States and the World Economy" in your Winter issue. The Canadian-U.S. relationship is so close and complex that we all have difficulty achieving perspective at the best of times. In the present climate, when it is true that some key cooperative premises on both sides seem to have been suspended, it is more important than ever for analysis to be accurate, judicious and balanced.

A number of inaccuracies are vitally important, and they are not all excused by rapidly changing events. Clearly the Canadian government has not expanded the role of the Foreign Investment Review Agency, and appears extremely unlikely to do so. Far from serving as the cutting edge of Canadian economic nationalism, the Agency is widely viewed as tame and toothless in comparison with any similar mechanism elsewhere (its approval rate for takeovers is over 90 percent). U.S. watchdogs become aroused at levels of foreign ownership which are derisory by the standards of Canadian hospitality (e.g., 5 percent to 37 percent in mining; 3 percent to 47 percent in manufacturing). In any event, Washington has now formally sought consultations on the Agency's procedures under the terms of the General Agreement on Tariffs and Trade (GATT), and Ottawa appears more than satisfied to pursue the case through such established channels.

The Industrial Renewal Board referred to has nothing to do with any Canadianization thrust, but is concerned with modernization and rationalization efforts in problem sectors. The Committee on Megaproject Industrial and Regional Benefits is concerned with the range of issues involved in major resource-based projects, particularly procurement issues, but its guidelines do not "deny equal opportunity to foreign firms and subsidiaries." Rather they seek to give competitive *Canadian* suppliers an equal opportunity to service major resource development projects, many of which are being undertaken by foreign-owned firms, by opening up the bidding process on supply contracts. These provisions are fully consistent with Canada's obligations under the GATT.

The authors go beyond simple inaccuracy when they view a number of "ideological positions," each of which certainly finds some adherents in Canada, as being "in essence . . . anti-American." The list includes: the

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concern of environmentalists with acid-rain pollution; the concern of "socialist groups" and a wider public which is "upset by Reaganomics"; "pacifists . . . dismayed by the neutron bomb and the confrontational posture of the United States toward the Soviets"; and so on. In fact, of course, each of these concerns attracts Canadian support and opposition in roughly the same proportions that it does in American opinion, and Canadians remain remarkably attuned and responsive to U.S. internal debates on such topics.

They are unabashed in generalizing about what they call the "mind-set of the present Canadian government" which is described (no doubt to the astonishment of socialists in the opposition) as having an "essentially social democratic perspective." In the same vein it is further asserted that the nation is seething with anti-Americanism, while, in fact, a strong case can be made that anti-Americanism per se is at a lower ebb in Canada than it has been for nearly 20 years.

There are wider questions of imbalance in the article. The substantial Canadian list of practical and important problems and frictions with the United States is in effect dismissed by the authors as "secondary" housekeeping matters. Meanwhile, it is surely even more surprising to American readers than others to see current U.S. economic policies credited with quintessentially consistent liberalizing and de-interventionist intent, both "domestically and internationally." The picture of recent Canadian policy as uniformly interventionist and "insulationist," if not isolationist, is an even cruder caricature.

The Reagan Administration has of course not managed to insulate its economic policies so completely from the frankly nationalistic posture it has taken up in other areas. It is an exaggeration to draw such a stark contrast between the two national directions and make no mention, for example, of continuing concerns with U.S. Domestic International Sales Corporation provisions, "Buy American" regulations, and the comprehensive system of non-tariff contingencies now entrenched under U.S. trade laws. Restraints on Japanese auto imports (which were contrary to the recommendations of the International Trade Commission), and retreats and inconsistencies on a number of key trade liberalization issues in textiles and steel all yield a much less pristine, and regrettably much less distinctive, portrait of the Reagan Administration.

Even our definitions of nationalism and internationalism need to be very carefully drawn in the current setting. The Canadian direction, the article fails to note, continues to accommodate the largest import of foreign investment by any major nation, both absolutely and relatively; a critically trade-dependent economy; and a disproportionate contribution to every significant multilateral economic forum, including a leading role in the effort to improve North-South relations. Whatever may be the eventual productivity of such linkages, for Canada or the world, they are not consistent with the Malmgren/Drouin image of insular Canadian chauvinism.

The most important new source of friction in Canadian-U.S. relations is the National Energy Program (NEP). It is unquestionably a sweeping program and a stark departure from business-as-usual in the postwar development of Canadian energy resources. Thus heated debate was to be expected on many different aspects of the plan. It should first be recognized, though, that in a decentralized federation where the provinces have primary jurisdiction over natural resources, *internal* debate on this policy has been far more rancorous, and important, than any of its cross-border implications. Although an uneasy

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modus vivendi has been worked out between federal and provincial governments, the domestic debates are far from over. Canadians can, and do, question whether Canadianization (even to the extent of 50 percent by 1990 of an industry now roughly 80 percent foreign-controlled) is legitimately a priority for federal action and expenditure.

It is, of course, impossible even for critics of the NEP to deny that existing levels of foreign ownership and control in these strategic industries are at levels many times those which most industrial nations would find tolerable. Nor is it possible to sustain assertions that the program is confiscatory toward established foreign investments. In the area of "back-in" provisions for discoveries during the transitional period there are now, in fact, "grandfather" clauses to provide compensation which is relatively generous. Rather than, as is often assumed, foreign-owned oil and gas firms facing "forced sale" conditions, there has been shrill criticism in Canada of the level of premiums (averaging 60 percent) on "Canadianization" purchases.

With all these corrections to the analysis, it remains true that the NEP is an explicit "Canadianization" program, and contains incentive provisions that favor nationals. To thoughtful Canadian opinion it is significant that such an incentive approach was chosen over penalties against foreigners. Canadians will also be sensitive and responsive to any well-documented case that the new program genuinely violates accepted rules and norms among OECD (Organization for Economic Cooperation and Development) nations. On the other hand, as Mr. Malmgren and Ms. Drouin themselves acknowledge, uncritical and intemperate foreign rhetoric against any national policy is almost always counterproductive. At this stage the advocates they cite of much wider Canadianization measures in other industries are clearly in minority or fringe positions in Canadian society. Nor can there be any credible claim that Canadian actions will trigger domino effects among other countries in vastly differing situations.

Canadian policymakers and the informed public probably have a fair appreciation of both rhetoric and reality in the Reagan Administration's "new mission to strengthen the world economic order through a worldwide fight against economic nationalism and a greater reliance on free-market forces." They are also acutely aware that the U.S. political system will allow no significant grievance by any interest group to go without vociferous defenders. In spite of a sometimes questionable tendency to plead for special treatment, Canadians have also contributed more than their share in building the body of agreed rules and procedures which guide economic relations among OECD countries, and they know that their own prosperity and welfare is highly dependent on the reasonable use of this system. Contrary to your authors' suggestion, there is no lack of machinery for managing and resolving the inevitable frictions in this closest of international relationships, once it is recognized that the interests and perceptions of the partners are sometimes quite different, but that the common stake in pragmatic problem-solving and in containing conflict remains as strong as ever.

BERNARD WOOD
Executive Director
North-South Institute
Toronto, Canada

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To the Editor:

In a lucid survey of outstanding bilateral issues between Canada and the United States, and of current U.S. foreign economic policies, Marie-Josée Drouin and Harald B. Malmgren have offered yet another obituary for the "special relationship" between the two countries, saying it "no longer seems to have meaning." "Relations between Canada and the United States," they write, "have become more strained than at any time in recent memory."

Memories, of course, can be short, for whereas the authors blame chiefly Canadian economic nationalism for current tensions, it was American insensitivity in August 1971 that precipitated a full Canadian review of foreign policy. It is difficult to demonstrate beyond assertion and the identification of hostile rhetoric that significant changes indeed have emerged in Canadian-U.S. relations during the past 18 months that have not come and gone, due to behavior on both sides of the border, on previous occasions. The recent Canadian constitutional battle may have helped popularize anti-Americanism as a political and economic strategy of the federal government, but it also preoccupied Canadian decision-makers and limited their follow-through on potentially hostile actions affecting the United States.

There are at least three reasons why the authors have not appreciated fully the dominance of continuity over change in the special relationship. First, "Canada" is not as they casually define it. "The residual pool of goodwill between the two nations," they report, "seems to have run dry." "Nations" substitutes here for the two federal governments and is accordingly inappropriate. Goodwill between Ontario nationalists and American corporations may be in short supply, but it remains abundant for western Canadians, Québecois, and the overwhelming majority of Americans. Such sentiment, moreover, is significant, for it prevents either federal government from overstating its complaint with the continental neighbor and partner.

A second essential flaw in the obituary is the assumption that economic issues alone define the special relationship. Military relations themselves often have been called special, and the cultural, political and social relations that bind Canadians and Americans often protect the special relationship against economic shocks designed by federal policies.

Finally, the authors presume that the essential Canadian-U.S. relationship is conducted by the federal governments in Ottawa and Washington. However, state-to-province relations are in a very advanced stage, especially in the northeast (between Quebec and Ontario, New England and New York) and in the west (between states such as Montana and the western provinces of Saskatchewan, Alberta and British Columbia). These relations are as friendly as one could imagine across international borders, and they involve significant economic stakes. Outside Ontario, Canadian economic nationalism is hard to identify, and outside Washington (and perhaps certain financial centers in New York) rare is the harsh word for Canada. It is too easy, and too dangerous, to summarize this complex bilateral international relationship by concentrating exclusively on the two federal capitals. Because they are *federal* systems, Canada and the United States share a special relationship not easily buried by the passage of divergent—and temporary—federal leaders.

The solution to Canadian-U.S. problems proposed by Ms. Drouin and Mr. Malmgren flows logically from their capital-to-capital conflict-riddled analysis. But if the two federal governments frequently are the source of tension, the economic commission they propose may only institutionalize the conflicts.

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It would be better, perhaps, to think more about encouraging non-federal, governmental trans-border interaction. The "locals" seem to posture less, and agree more, than their federal governments.

ELLIOT J. FELDMAN
Director
University Consortium
for Research on North America
Cambridge, Mass.

Ms. Drouin and Mr. Malmgren reply:

In his letter Mr. Wood has raised a number of points that require clarification, but perhaps most important is the perspective which his letter sheds on Canadian-U.S. relations. In our article we described a range of views and perceptions on Canadian-U.S. relations without actually attempting a preference for any particular position. Mr. Wood, through the tone and substance of his letter, has clearly put forth a particular view, one shared by economic nationalists, bureaucrats and former government officials in Canada. In this sense his letter provides readers of *Foreign Affairs* with a much clearer idea of these positions.

There are some points which we must clarify further. First, the reference to the Foreign Investment Review Agency. Had Mr. Wood taken a more balanced view of our description of FIRA he would have noticed our clear statement that: "Minister Herb Gray had argued in public for an expansion of FIRA's activities to cover ongoing operations of subsidiaries of foreign firms, and at one point expressed an intention to introduce new legislation in October of this year. . . . the Canadian Cabinet decided not to put this proposal to Parliament. Whether the idea will be revived at a later date remains an open question." Yet anyone who has dealt with FIRA knows that even though legislation has not given the agency increased power, in actual fact administrative procedures are more stringent, with more emphasis given to performance requirements, etc. Moreover, the fact that the approval rate is very high masks the tedious negotiations which occur prior to approval. These procedures often change the proposed project to a considerable degree and at times have even caused an application to be withdrawn.

Second, there appears to be some confusion regarding our discussions of the Industrial Renewal Board and the Committee on Megaproject Industrial and Regional Benefits. While we recognize that both boards have very different mandates, we nevertheless look upon these committees as indications of the thrust which Canada is giving to economic policy. The Industrial Renewal Board emphasizes industrial restructuring but seems to carry a slightly protectionist bent, whereas the Committee on Megaproject Industrial and Regional Benefits clearly favors economic nationalism.

Finally, Mr. Wood is correct in pointing out that the United States is far from having returned to a system of pure competition and free enterprise, if ever such a system existed. Nor is Canada a socialist country. The essential point, however, in addressing the evolution of Canadian-U.S. relations is the direction of economic policy. No one can dispute U.S. efforts to give the country a more liberal orientation, whereas Canada would appear to be resisting such a course. It is this divergent orientation which is contentious and the standard description offered by Mr. Wood is of very little use in any bargaining framework. This divergent orientation would not be so serious but

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for the global push of the United States which makes it difficult for it to develop a special relationship with Canada, unless Canada makes some efforts to bring itself closer to U.S. thinking.

Mr. Feldman makes a very valid point to the effect that a number of participants would like to be included in discussions of Canadian-U.S. relations—be they representatives of provincial governments, local governments or academic bodies. The authors could not agree more with such a position, which is the very reason that a Canadian economic committee was proposed in order to involve a much larger number of participants from both sides of the border.

ARCTIC SOVEREIGNTY AND SOVIET DEVELOPMENT

To the Editor:

Regarding the article by Lincoln P. Bloomfield, "The Arctic: Last Unmanaged Frontier" in your Fall 1981 issue, I cannot agree with Mr. Bloomfield's analysis of Canada's position with respect to the Arctic waters or his view that the legal status of the waters is "murky." Canada has and exercises sovereign rights over its northern maritime regions, as elsewhere along its coast. Moreover, it is clearly Canada's position that the waters of the Arctic Archipelago, including the Northwest Passage, are internal waters. Canada's sovereignty has been manifested over a lengthy period of time by control over these waters and by a series of administrative and legal acts. As internal waters of Canada, these waters are subject to national laws and regulations, including the regulation of ship traffic in the Northwest Passage.

The sovereignty and sovereign rights of Canada in the Arctic are outlined in a background paper, "Canadian Sovereignty in the Arctic," available upon request from the Canadian Ministry of External Affairs.

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Legal Adviser
Office of the Under Secretary of State for External Affairs
Ottawa, Canada

To the Editor:

The map accompanying Lincoln P. Bloomfield's article on the Arctic suggested that the article itself might be something of a view from the United States; and so it turned out. Johan J. Holst's immediately preceding article, "Norway's Search for a Nordpolitik," was focused very clearly on that sector of the Arctic that concerns Norway. What remained too vague was the Soviet sector.

It may not be too much to say that the Arctic seas are the key to the future of the Soviet Union.

Mr. Bloomfield suggests that there is "almost total ignorance on the part of most laymen" about the Arctic and that there are only "a handful" of well-informed Arctic specialists. This is indeed the case in the West, but not in the Soviet Union. The whole economic future of the Soviet Union depends on the successful exploitation of resources east of the Urals and particularly in Siberia; in turn, the development of Siberia depends on the possibility of transport into and out of huge areas of permafrost where neither road nor rail is possible and the intention is to use the huge network of rivers—the Ob, the

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Yenisey, the Lena and all their tributaries. Major ports are being built some thousands of kilometers from the river mouths, the rivers themselves and their estuaries dredged. Sea/river vessels will make up half this five-year plan's new shipping, and a large proportion of it is to be "ice-strengthened." Finnish yards are building icebreakers for the Soviet Union of all kinds: shallow-draft for the estuaries, nuclear-powered to keep as much as possible of the Arctic sea route open throughout the year. A nuclear-powered ice-strengthened freighter, the first of many, is due to be delivered in 1985. "Ice quays" are set up in the Kara Sea in winter from which air-cushion vehicles can make deliveries to the gas fields on shore.

A few years ago one of the three Soviet nuclear-powered icebreakers reached the North Pole, and another opened a channel for a freighter to make a great circle crossing of the Arctic Ocean to the Soviet far east. The combination of meteorological and navigation satellites and of nuclear propulsion is behind Soviet official hopes for opening up this and other Arctic routes.

Professor Bloomfield mentioned the Soviet plans for reversing some of the flow of the north-flowing rivers. The first stage of the first such plan is to be implemented in the present five-year plan: sending some of the flow of the Pechora river southward into the Volga Basin (the level of the Caspian Sea has gone down by several meters in recent decades and the total disappearance of the Aral Sea can now be forecast). Soviet hydrological problems are in fact breathtakingly alarming: the whole agricultural and industrial development of an area stretching from the Black Sea in the west to Lake Balkash in the east is at risk from lack of water. Some 600 or 700 cubic kilometers of fresh water pour into the Arctic seas every year, so it is hardly surprising that there should be plans to switch some 100 or more cubic kilometers southward.

What effect would this have on the Arctic itself? Professor Philip P. Micklin of Western Michigan University has concluded that the river diversion projects have the potential of altering the Arctic ice-cover which could in turn influence the whole Northern Hemisphere climate. Just how, no one is clear: the environmental data base, he points out, is "woefully inadequate." It is fairly well known that Soviet experts are not free to express politically inconvenient views and there is no certainty that the vast cost-benefit analyses that are now being done in the Soviet Union will be soundly based. It is hard indeed to see how enough data could possibly be acquired to ensure sound decisions. There are three elements: the absolute need of the southern regions for vast new quantities of water; the absolute need to use the rivers and the Arctic sea waters for transporting equipment into and production out of Siberia; and the absolute need not to take excessive risks with the climate of the Northern Hemisphere.

By and large the Soviet Union is not too keen to discuss its internal problems with the rest of the world and I am not at all sure that Lincoln Bloomfield is right in suggesting that "the Arctic may offer interesting opportunities for discussions at low cost but with a possibly high payoff." I have mentioned nothing of the military problems of the area, nor of the legal ones, all of which are, I think, rather more complex than his article suggests. One reason is the plethora there of undefined boundaries: the maritime boundary between the Soviet Union and Norway (i.e., between NATO and the Warsaw Pact) in the Barents Sea—an area of very valuable natural resources—is one; another is the whole external boundary of Soviet Arctic seas. The Soviet Union claims these various seas as "historic waters," or internal seas, and it is from their outer edge that the Soviet Territorial Sea

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and Exclusive Economic Zone would be measured. Does the Soviet Union in fact claim the whole sector of the Arctic Ocean up to the North Pole? Or are these high seas to within three miles of the Soviet coast, as the United States must be presumed to maintain?

ELIZABETH YOUNG
London, England

Elizabeth Young is a member of the Northern Waters Group of the Edinburgh Royal Institute of International Affairs and the Aberdeen Center for Defense Studies.

Mr. Bloomfield replies:

My description of Canada's legal position was based on recent statements by Canadian experts who evidently sense more ambiguity in that position than does my friend Leonard Legault in his official capacity. I agree with much of what Elizabeth Young says, including the charge of trying to simplify issues that are normally inaccessible to the laity. I fully concur and said that the Arctic is of prime concern to the Soviet Union on many scores but, as Mrs. Young herself has often argued in her distinguished career, there is a strong case for vigorously seeking international cooperation even or perhaps particularly when vital interests are involved.

McNAMARA'S BANK

To the Editor:

William Clark's article, "Robert McNamara at the World Bank," in your Fall issue, is a valuable appraisal of an important phase of the world development problem. Clark's stay at the World Bank coincided almost exactly with that of McNamara and he was one of the few who were close to McNamara. Perhaps as a result, he underplays the creative contributions of McNamara's predecessors, George Woods and Eugene Black. It was, for example, Woods who established the Economics Department. It was under him that the greatest rate of growth in economic personnel and economic work took place—the fruition of which Clark celebrates as a McNamara contribution. It was under Black that the pioneering policy of lending for agriculture and education projects began. The evolution of this policy under McNamara was hardly more innovative than under Woods. On the other hand, Clark does not mention what, to my mind, were among the greatest contributions of McNamara: the establishment of the network of tropical agricultural research centers around the world and the beginning of an international effort against the major tropical diseases. In the long run, these two programs may contribute more to African development, for example, than the total of Bank lending during McNamara's tenure.

The major lack in Clark's article is an adequate explanation of the central mystery of McNamara's tenure at the Bank: why, in spite of his undoubted talents and contributions, did he arouse so much antagonism from the United States and other major industrialized nations and from Bank staff? His lending policy innovations are an insufficient answer—both Black and Woods made much greater substantive changes without such widespread bitterness.

The clue, in my judgment, is in McNamara's taking the volume of lending as his main criterion of success. (In economic jargon, he took the amount of loans as the quantitative objective function the Bank should maximize.) His first major policy objective, as Clark reports, was to double the average rate

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of lending during his first term. Growth in the volume of loans continued to be his most important management goal throughout his administration.

The process of economic development is much too complex to be covered by a single policy prescription. Bearing this in mind, there is a fundamental difference between those people who emphasize the dependence of development in the poor countries on the volume of the transfer of resources from rich to poor and those who instead emphasize that development depends, first and foremost, on the improvement in the allocation and management of the resources (in the widest sense) at command of the poor country. Both the "transfers" people and the "economic management" people recognize the importance of the other point of view but the different emphasis results in very different methods of operation.

McNamara clearly belonged to the "transfers" group while his predecessors belonged to the "economic management" group. In terms of the level of lending, the McNamara results appear impressive—$12.3 billion in total Bank and International Development Association lending in his last year compared to $1.3 billion in 1967 before he became president. However, if the inflation-distorted figures are deflated by the U. S. producer price index, the results are that in the McNamara years lending in real terms grew at a rate of under ten percent a year, while in the Black-Woods period, taken together, lending grew by just over ten percent a year. That is, the average rate of growth of lending was roughly the same under McNamara as in the preceding period.

McNamara's emphasis on achieving quantitative loan targets had large repercussions within the Bank. Whatever the president's rhetoric in acknowledging other goals, everyone on the staff knew that what counted was to fulfill the lending program. However, the staff had been trained under Black and Woods to regard a loan as a vehicle through which to secure better economic management in a project, sector or economy. What this means in some cases is that it is better to refuse than to make a loan. (For example, in 1957 when Spain joined the Bank, Black informed Generalissimo Franco that, on the recommendation of the Bank mission, the Bank would not consider lending until Spain had made drastic changes in its financial and economic policies. With a parallel position taken by the International Monetary Fund and OECD, the liberalizing group within the Spanish government won the day and Spain took off on a sustained burst of growth.) Under McNamara, a conscientious Bank staff trying to achieve "management" objectives at the cost of the lending program did so at some cost to themselves.

Putting the emphasis on the need to achieve lending targets resulted in what some bitter Bank staff called "reversal of roles." The loan officer's career was dependent on the willingness of borrowers to accept loans. The official Bank line, repeated by Clark, was that the quality of Bank projects was as high as ever. But this is not to the point: a power project during the McNamara years was undoubtedly a good project but the real question is whether the Bank negotiators were as successful as they would have been earlier in getting improvements in rate policy, for instance.

The staff experience influenced governments. Moreover, with his emphasis on the volume of transfer of resources, McNamara inevitably became a lobbyist in pressuring the industrialized countries for greater aid. Only rarely did he balance this by pointing out what the less developed countries need to do for themselves. This imbalance won him few friends among the former and not many among the latter.

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The United States is only at the beginning of learning to live in a shrunken world with a majority of independent peoples increasingly conscious of being relatively very poor. We have already discovered how difficult and painful it is to erect barriers to keep just our nearest poor neighbors out. In the United Nations, the majorities against us are becoming permanent and automatic. If we do not wish to exist with a beleaguered fortress mentality, progress in economic development of the poor two-thirds of the world is essential. The World Bank remains one of the most effective organizations for this process. Not only for the sake of the less developed countries but also for us, it is to be hoped that the new president of the World Bank, A. W. Clausen, will be able to hold the gains made under McNamara and also restore the morale and favorable standing the Bank had under McNamara's predecessors.

ANDREW M. KAMARCK
Brewster, Mass.

Andrew M. Kamarck, now at the Harvard University Institute for International Development, worked for 29 years at the World Bank where he was, successively, Economic Adviser on Europe, Economic Adviser on Africa, Director of the Economics Department, and Director of the Economic Development Institute.

Mr. Clark replies:

Mr. Kamarck, with his long experience at the Bank, reports quite correctly on the unease of the established Bank staff when McNamara promised to double Bank lending in five years. But by the end of that period the staff had a very different appreciation of the reasons why McNamara wished to keep up the pressure to expand the lending program. Those who met him on his frequent trips throughout the Third World could see how the urgency of the poverty problem impelled him to try and achieve the maximum impact on the economic management of the countries he visited through Bank loans. Only those left out of the mainstream of Bank activity could imagine that transfers were the objectives of his policy.

ARMS AND POVERTY

To the Editor:

In Andrew Pierre's article on arms sales in the Winter 1981/82 issue of *Foreign Affairs* he makes the statement that "of themselves arms sales are neither 'bad' nor 'good'. . . ." I would like to join what will probably be a sizable group which takes issue with that view. Money spent on weapons constitutes a gross misallocation of resources even if those weapons are never used. The people of the Third World countries which you point out are major purchasers of weapons are mired in stinging poverty, suffer from debilitating and deadly diseases and lead lives of misery and frustration. To the extent that money spent on weapons is diverted from the amelioration of human misery, arms sales can only be considered bad. Not bad because the weapons may someday be used to kill people but because they kill people currently by eliminating life-giving and life-saving projects.

It seems strange that scholars and statesmen and the affluent of the world can marshall the marvels of modern technology for weapons in the Third

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World but not for safe drinking water, food production and all the other benefits of civilization that Western Europe has enjoyed for the past 500 years.

RONALD S. RATNEY
Bedford, Mass.

Mr. Pierre replies:

Of course I agree with the noble sentiments in Mr. Ratney's letter. It would be nice if Third World countries spent their money on schools and hospitals rather than weapons of destruction. The regrettable fact is, however, that many sovereign developing countries are demanding arms, often in greater quantities and levels of sophistication than they are receiving even now. The enormous growth in Third World expenditures on armaments is, in the main, a demand-side phenomenon. The largest purchasers have been countries that perceive that they have national security needs for the arms. As to arms sales being neither "good" nor "bad" of themselves, it all depends upon the particular case: will a sale be destabilizing or stabilizing? provide influence or enmity in the long run? The need to weigh short-term benefits versus potential long-term costs, political incentives versus arms control risks, etc., is what makes the global politics of arms sales such a difficult policy arena.

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RECENT BOOKS ON INTERNATIONAL RELATIONS

Edited by Lucy Edwards Despard

General: Political and Legal

John C. Campbell

UN SEUL LIT POUR DEUX RÊVES: HISTOIRE DE LA "DÉTENTE", 1962–1981. By André Fontaine. Paris: Fayard, 1981, 538 pp. Fr. 98.

The noted editor of *Le Monde* has written a worthy sequel to his earlier history of the cold war. His eye is always on the contest of the two giants, but in the process of describing it he gives a balanced and fact-filled history of world affairs, North-South as well as East-West. Americans in particular should read this book, because it is informed and perceptive from a viewpoint not their own. The title comes from Chou En-lai's remark that the two superpowers sleep in the same bed but do not have the same dreams.

THE PATTERN OF IMPERIALISM: THE UNITED STATES, GREAT BRITAIN, AND THE LATE-INDUSTRIALIZING WORLD SINCE 1815. By Tony Smith. New York: Cambridge University Press, 1981, 308 pp. $29.50 (paper, $10.95).

Tony Smith is right in judging that the time is ripe for reexamination of the concept of imperialism in the light of historical and contemporary fact rather than outworn theory or mythology. Inevitably he has to devote much space to the problems of definition, but he has enough left over to describe with rare objectivity Britain's nineteenth-century experience and that of America in the twentieth, up to the beginning of the decline of American global power in the 1970s. A thoughtful, well-reasoned book.

SOCIAL ORDER AND THE GENERAL THEORY OF STRATEGY. By Alexander Atkinson. Boston: Routledge & Kegan Paul, 1982, 244 pp. $17.50 (paper).

A venture into the realm of grand strategy, based on the idea that traditional theory has failed to grasp the fundamental importance of the social order in relation to the use of violence for political ends. The author draws heavily on the writings of Mao Tse-tung, painstakingly collected from scattered sources, and the Chinese revolutionary experience. The text is at times obscure, but the author sees to it, often by repetition, that his points come through.

CONCORDE DIPLOMACY: THE AMBASSADOR'S ROLE IN THE WORLD TODAY. By Sir Geoffrey Jackson. North Pomfret (Vt.): Hamish Hamilton, 1981, 254 pp. $23.50.

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The lot of the career diplomat in the age of instant communication, Kissinger-style air shuttles, and open season for terrorists on diplomatic establishments is not an entirely happy one. Sir Geoffrey, after a distinguished career in Britain's foreign service, writes with good sense and a light touch on the old and the new diplomacy, summitry, politically appointed envoys, and—with the authority he has as the victim of a notorious kidnapping (in Uruguay)—on the decline of diplomatic immunity.

CONTEMPORARY TERROR: STUDIES IN SUB-STATE VIOLENCE. Edited by David Carlton and Carlo Schaerf. New York: St. Martin's, 1981, 231 pp. $25.00.

A bevy of qualified authors, most of whom have written previously on the subject, probe further into the causes, methods and consequences of the terrorist assault on the existing order, from those based on nationalist aspirations (IRA, PLO, Basques, etc.) to those of near-anarchist protest such as the Red Brigades and the Baader-Meinhof gang. They recognize, and discuss wisely, the dilemmas of trying to reduce the vulnerability of free societies without weakening the institutions which make them free.

THE PRACTICAL NEGOTIATOR. By I. William Zartman and Maureen R. Berman. New Haven: Yale University Press, 1982, 250 pp. $20.00.

A valuable distillation and analysis of negotiating experience, this guide is based largely on the recollections and advice of many who have conducted negotiations over the past half century, admirably organized and commented upon by the authors. It is part of a continuing project on negotiation and conflict resolution undertaken by the Academy for Educational Development.

MODELS OF AUTONOMY. Edited by Yoram Dinstein. New Brunswick (N.J.): Transaction Books, 1981, 303 pp. $29.95.

The genesis of this book was an effort to analyze cases of autonomy which might suggest elements helpful to the Israeli-Egyptian negotiations under the Camp David accords. The models, described by specialists from Israel and Western countries, range from colonial America to South Tyrol and Puerto Rico, plus several examples where autonomy did not work or is yet to be attained. The case histories are instructive, although their usefulness in the current negotiations on the West Bank and Gaza is not readily apparent.

INTERNATIONAL REGULATION OF INTERNAL RESOURCES. By Mahnoush H. Arsanjani. Charlottesville: University Press of Virginia, 1981, 558 pp. $37.50.

LAW AND INTERNATIONAL RESOURCE CONFLICTS. By J.E.S. Fawcett and Audrey Parry. New York: Clarendon Press/Oxford University Press (for the Royal Institute of International Affairs), 1981, 254 pp. $55.00.

Whatever the outcome of the debate on a new international economic order, the global economy of interdependence will require continuing adjustment of conflicts over how the world's resources are to be produced, priced, used and shared. These two books review the state of international law on the subject and look to the future. Arsanjani takes a lofty general approach, pointed toward a world order of human dignity and equitable distribution, but the bulk of her book is a detailed study of international agreements and practices. The more concise volume of Fawcett and Parry, based on the work of a Chatham House group, takes up trade, investment, marine resources, oil

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and other topics, describing the existing role of law and nonlegal rules and standards in the resolution of conflicts.

General: Military, Technological, and Scientific

Andrew J. Pierre

THE EVOLUTION OF NUCLEAR STRATEGY. By Lawrence Freedman. New York: St. Martin's, 1981, 473 pp. $35.00.

The author's avowed aim is to present a history of the ideas of nuclear strategy. This Herculean task, covering three and a half decades during which there has been an immense outpouring of writing, is accomplished well. Those who have lived this debate will be reminded of its twists and turns. It is the new students, who have had less exposure, especially to the ideas of the 1950s and 1960s, who will profit the most. Freedman concludes that the nuclear doctrine debate has now become so esoteric that it is dealing with issues of second- and third-order importance, neglecting the overriding political uncertainties in world politics. He is right!

LIFE AFTER NUCLEAR WAR. By Arthur M. Katz. Cambridge: Ballinger, 1981, 452 pp. $35.00.

The title of this book is not without irony, for the author makes clear that the living would have reason to envy the dead in a post-nuclear war situation. Currently fashionable scenarios for limited nuclear war become quickly appalling as one sifts through the technical details on the horrendous consequences of even a "limited attack" on the United States. As in the case of the recently published Japanese study *Hiroshima and Nagasaki* (reviewed in *Foreign Affairs*, Fall 1981, p. 201), the author assesses the economic, social and psychological damage of nuclear devastation as well as the military consequences. He is pessimistic about the speed and depth of post-attack recovery.

THE ISLAMIC BOMB: THE NUCLEAR THREAT TO ISRAEL AND THE MIDDLE EAST. By Steve Weissman and Herbert Krosney. New York: Times Books, 1982, 339 pp. $15.50.

This fast-paced account of nuclear machinations involving, principally, Pakistan, Iraq and France has some fascinating tidbits of information drawn from the authors' interviews. But the journalistic, breathless tone of the narrative and the uneven treatment of what is already known detracts from the overall credibility of the book.

THE GLOBAL POLITICS OF ARMS SALES. By Andrew J. Pierre. Princeton: Princeton University Press, 1982, 352 pp. $20.00 (paper, $5.95). A Council on Foreign Relations Book.

Andrew Pierre has produced by far the most comprehensive analysis of one of the most important instruments of policy in postwar international politics. Based on extensive research in documents and through on-site investigations, it provides an abundance of information on arms sales among all the principal suppliers and recipients. Subjecting all the familiar generalizations about the arms trade to a scrupulously objective examination of its actual military, economic and—most important—political consequences, Pierre arrives at an original set of insights and conclusions that both scholars and practitioners will find extremely valuable. He concludes the study with a discussion of the

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problems and prospects of applying international restraints to arms sales that is outstanding for its balance and sophistication.

Robert E. Osgood

CRUISE MISSILES: TECHNOLOGY, STRATEGY, POLITICS. Edited by Richard K. Betts. Washington: Brookings, 1981, 612 pp. $32.95 (paper, $15.95).

"Cruise missile policy is a bucket of worms," Richard Betts concludes, "[but] one thing is clear: neither the benefits nor the disadvantages of cruise missiles are as revolutionary or as simple as either advocates or opponents originally believed." All aspects of cruise missiles as a multipurpose "family of weapons"—technical, economic, strategic, tactical, political and diplomatic—are impressively addressed in this expert study. A final chapter by the editor skillfully attempts to pull the 612-page work together. But a more concise book, with better "handles," would have reached a wider audience.

THE IRON TRIANGLE: THE POLITICS OF DEFENSE CONTRACTING. By Gordon Adams. New York: Council on Economic Priorities, 1981, 465 pp.

The title refers to the relationship among defense contractors, Congress and the Pentagon. This study by a public-interest group is long on documentation but somewhat thin in analysis. The closeness of the relationships, based upon the revolving door of government and industry jobs, extensive lobbying efforts, and political contributions, is indeed documented in considerable detail. Whether it is necessarily as insidious as suggested is a matter of interpretation.

INTELLIGENCE POLICY AND NATIONAL SECURITY. Edited by Robert L. Pfaltzgraff, Jr., Uri Ra'anan and Warren Milberg. Hamden (Conn.): Archon Books, 1981, 318 pp. $32.50.

A wide-ranging collection of essays by former practitioners and scholars which address a number of critical issues: how to deal with deception and surprise; problems in the verification of strategic arms control agreements; technological uncertainties; the increasing role of economic intelligence; the management of intelligence activities. Although there are too many contributions and some of the essays are too short to deal adequately with their topic, the volume as a whole provides much grist for thought about an important subject rarely well discussed (in a non-sensational manner) in the open literature.

DEFENSE OR DELUSION? AMERICA'S MILITARY IN THE 1980s. By Thomas H. Etzold. New York: Harper, 1982, 259 pp. $14.95.

This mildly critical overview of U.S. military capabilities and future defense needs is presented here with competence and balance. It is probably useful for the general audience for which it is apparently intended. Those more steeped in defense issues will find little that is new in detail or analysis.

SOVIET MILITARY THINKING. Edited by Derek Leebaert. Winchester (Mass.): Allen & Unwin, 1981, 300 pp. $37.50 (paper, $14.95).

Soviet strategic doctrine remains a subject of controversy and speculation within the West, while its fundamental importance for those charged with planning Western defense and arms control policies is, if anything, increasing. This collection of essays by a distinguished, yet diverse, group of analysts is therefore an important contribution. The work of authoritative scholars (such

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as Fritz Ermarth, Raymond Garthoff, Michael MccGwire, Nathan Leites and David Holloway), each contribution presents much distilled thought.

THE SUPERPOWERS AND REGIONAL TENSIONS: THE USSR, THE UNITED STATES, AND EUROPE. By William E. Griffith. Lexington (Mass.): Lexington Books, 1982, 135 pp. $18.95.

A knowledgeable overview of East-West relations as of mid-1981, with a particular focus on Europe, East and West. Griffith believes, quite correctly, that the Western alliance is now in a long-term crisis of a new magnitude.

BRITISH INTELLIGENCE IN THE SECOND WORLD WAR: Vol II. By F.H. Hinsley with E.E. Thomas, C.F.G. Ramsom, and R.C. Knight. London: HMSO, 1981, 850 pp. £15.95.

THE HUT SIX STORY: BREAKING THE ENIGMA CODES. By Gordon Welchman. New York: McGraw-Hill, 1982, 326 pp. $12.95.

Professor Hinsley of Cambridge and his colleagues (all veterans in separate areas of intelligence) cover the crucial years from mid-1941 to mid-1943 with the same thoroughness and balance that marked their first volume on the earlier years of trial and error. This middle period was one of almost unbroken successes and striking contributions to strategy and operations alike—the major exception being the inability to read the U-Boat Enigma during 1942. The eventual recapture of that cipher is the basis for a fascinating Appendix; for the rest, the volume touches only generally on how the breaking of German and Italian ciphers was accomplished. Welchman, a central figure in the original Enigma breaking, tells a more personal story—engrossing to puzzle-solvers, perhaps hard going for the lay reader—of the extraordinary ingenuity that enabled the British to get on top of most Enigma traffic even before they had the aid of early computer technology. Now an American, the author goes on to spell out the lessons of his experience for contemporary problems in protecting military and other communications.

W.P.B

General: Economic and Social

William Diebold, Jr.

ECONOMIC COERCION AND U.S. FOREIGN POLICY: IMPLICATIONS OF CASE STUDIES FROM THE JOHNSON ADMINISTRATION. Edited by Sidney Weintraub. Boulder (Colo.): Westview Press, 1982, 229 pp. $22.00.

An experienced State Department official turned academic led a team of graduate students through the study of papers in the Lyndon Johnson Library bearing on six episodes involving Indonesia, Egypt, India, Chile and South Africa. They find some success in the use of economic pressure when objectives are clear and not too ambitious. The influence of publicity or the lack of it gets considerable attention. "Coercion" includes carrots as well as sticks, persuasion as well as pressure, in this useful book.

THE ROLE OF ECONOMIC ADVISERS IN DEVELOPING COUNTRIES. By Lauchlin Currie. Westport (Conn.): Greenwood Press, 1981, 270 pp. $27.50.

Lauchlin Currie went from Harvard to Washington as an adviser to Franklin Roosevelt. In 1949 he organized the first country mission sent out by

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the World Bank and afterwards returned to Colombia to help carry out its recommendations. Most of the time since then he has spent advising the Colombian government in a variety of capacities. Though this excellent book is neither an autobiography nor an economic history of Colombia, elements of both go into Currie's analysis of advisers, advice and what causes the recipients to accept or reject them. Several respected institutions and methods come off poorly and he does not hold with a number of ideas now fashionable, especially if they might get in the way of growth. This is an original book of great value and quality.

U.S. FOREIGN POLICY AND THE NEW INTERNATIONAL ECONOMIC ORDER: NEGOTIATING GLOBAL PROBLEMS, 1974–1981. By Robert K. Olson. Boulder (Colo.): Westview Press, 1981, 168 pp. $22.50.

A retired Foreign Service officer who participated in some of the North-South negotiations of the 1970s calls for a new initiative by the United States on the real problems that were not dealt with by the successful American resistance to the New International Economic Order. His concise critical history of the past negotiations shows why new methods are needed as well. This is a good piece of work.

NORD-SUD: LES ENJEUX. By Abdelkader Sid-Ahmed. Paris: Publisud, 1981, 313 pp.

An Algerian economist reviews the North-South negotiations of the 1970s (in which he took part) and concludes that the developing countries need to cooperate more closely to increase their "collective autonomy." The discussion of what this might entail and the obstacles to it is the high point of this intelligent book. The author's proposed agenda for new North-South discussions is more familiar but is right in arguing that the world's economic difficulties give the effort a new urgency.

THE "GLOBAL NEGOTIATION" AND BEYOND. Edited by Roger D. Hansen. Austin: Lyndon B. Johnson School of Public Affairs, University of Texas, 1981, 244 pp. $5.95 (paper).

The academics and practitioners who took part in the conference summarized here saw the need for "cognitive evolution" to overcome differences and find common interests. The thoughtful retrospective by the editor allows for cautious optimism but ends on an "ambivalent note."

THE LOGIC OF IMPERIALISM. By Albert Szymanski. New York: Praeger, 1981, 598 pp.

A sociologist from the University of Oregon marshals a good deal of empirical material to show why Lenin's theory of imperialism does better than later modifications, especially those concerning dependency, to "account fairly well for present-day reality." He concludes that America's short experiment with "imperialism with a human face" in the Carter Administration was bound to give way to greater use of military force, but that this will not "hold back the revolutionary wave sweeping the less-developed world."

THE ORGANIZATION OF ARAB PETROLEUM EXPORTING COUNTRIES. By Mary Ann Tétreault. Westport (Conn.): Greenwood Press, 1981, 215 pp. $35.00.

OPEC: TWENTY YEARS AND BEYOND. Edited by Ragaei El Mallakh. Boulder (Colo.): Westview Press, 1982, 270 pp. $26.25.

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Professor Tétreault has neatly disentangled OAPEC from OPEC and the Arab League to delineate its functions and test its influence, which she suspects may be greatest in regional development and technological transfer. Prices figure largely in the 17 papers collected by Professor El Mallakh, but several of his authors deal with other aspects of the OPEC experience and its possible future.

MONETARY POLICY AND PRACTICE: A VIEW FROM THE FEDERAL RESERVE BOARD. By Henry C. Wallich. Lexington (Mass.): Lexington Books, 1982, 395 pp. $19.95.

"I believe that the central bank needs to speak up," says this highly articulate member of the Federal Reserve Board. The 44 papers collected here show him living up to his principle. They deal lucidly and learnedly with a wide range of matters including inflation, domestic and international monetary issues, banking, investment, economic growth and planning. And the busy governor is not much more than half way through his term.

THE MONEY LENDERS. By Anthony Sampson. New York: Viking, 1982, 336 pp. $16.95.

A person from Mars reading this entertaining book might conclude that, although international bankers are ingenious and hardworking, they often lack judgment and exacerbate their problems by their tendency to all do the same thing. The Martian would also learn something about most of the issues in international finance that have been worrying earthlings.

THE U.S. STEEL INDUSTRY IN RECURRENT CRISIS. By Robert W. Crandall. Washington: Brookings, 1981, 184 pp. $19.95 (paper, $7.95).

This first-rate study traces the declining competitiveness of the U.S. carbon steel industry during the postwar period. With a wealth of well-ordered data on costs and prices, it points to a fairly bleak but not catastrophic future. Crandall calculates the costs of various measures to help the industry, and he does not see a case for extensive protection or subsidization on national security grounds.

TRADE, INFLATION, AND THE DOLLAR. By Thibaut de Saint Phalle. New York: Oxford University Press, 1981, 442 pp. $24.95.

This is a well-written and comprehensive argument in favor of sound money, competitiveness, more emphasis on exports, less regulation (including minimal trade restrictions), and a generally tough attitude toward American interests in the world economy. Detailed statistics demonstrate the points but inevitably slip a bit out of date. The author is a businessman and lawyer who worked at the Export-Import Bank and now heads business and economic studies at the Georgetown Center for Strategic and International Studies.

WEBS OF POWER: INTERNATIONAL CARTELS AND THE WORLD ECONOMY. By Kurt Rudolf Mirow and Harry Maurer. Boston: Houghton Mifflin, 1982, 342 pp. $15.95.

A Brazilian manufacturer of electrical equipment who suffered from a cartel of foreign firms in his country has joined with an American writer to produce a balanced summary of the history of cartels in oil, uranium, steel, fibers, chemicals and pharmaceuticals, and shipping, as well as electrical transformers and other items. They show that the cartel movement is not a thing of the past and are prudently pessimistic about the chances of checking it through international action.

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COMPETITION IN INTERNATIONAL BUSINESS: LAW AND POLICY ON RESTRICTIVE PRACTICES. Edited by Oscar Schachter and Robert Hellawell. New York: Columbia University Press, 1981, 441 pp. $35.00.

No satisfactory antitrust arrangements covering many countries have ever been worked out but the subject is an important one. The conference reported here dealt with newer aspects of the subject—technology transfer, transnational corporations and codes for their conduct—along with the older problems of cartels and size. This is the best work in this field for some years.

BEYOND INDUSTRIALIZATION: ASCENDANCY OF THE GLOBAL SERVICE ECONOMY. By Ronald Kent Shelp. New York: Praeger, 1981, 242 pp. $26.95.

The U.S. government and American business are pushing for international agreements to liberalize the trade in services. This pioneering book by one of the leading participants in the process helps explain why and gives the first extensive account of past efforts. Like all serious workers in this field, the author is hampered by poor statistics and the difficulty of generalizing about the many different kinds of activities labelled "services." Nevertheless, the book breaks new ground and should stimulate further discussion.

INDUSTRIAL POLICIES IN THE EUROPEAN COMMUNITY. By Victoria Curzon Price. New York: St. Martin's, 1981, 141 pp. $22.50.

This is a remarkably compact and clear discussion of some of the main measures of industrial policy undertaken by several European countries and the Community. The author applauds successful adjustment but finds it rare; other efforts are tellingly criticized from the point of view of one who not only believes in trade liberalization but understands how it works.

POLISH-U.S. INDUSTRIAL COOPERATION IN THE 1980s. Edited by Paul Marer and Eugeniusz Tabaczynski. Bloomington: Indiana University Press, 1982, 409 pp. $25.00.

Behind a title made poignant by events stand the results of an unusual joint study by economists from both countries. There is valuable material on cases of industrial cooperation between American companies and Polish enterprises plus documents, papers and reports of discussions covering wider issues as well.

ALTERNATIVE APPROACHES TO ECONOMIC PLANNING. By Martin Cave and Paul Hare. New York: St. Martin's, 1981, 226 pp. $27.50.

The Soviet Union, France and Hungary are examined in this excellent systematic work on the machinery and methods of planning. Differences seem more important than similarities.

The United States

Gaddis Smith

STRATEGIES OF CONTAINMENT. By John Lewis Gaddis. New York: Oxford University Press, 1982, 432 pp. $25.00.

A perceptive and illuminating historical analysis developing the theme that since 1947 U.S. policy has shifted between (and sometimes combined) a "symmetrical" response to perceived Soviet expansion everywhere, and an "asymmetrical" response which stresses the priority of certain regions and the

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wisdom of dealing from strength. The author argues that an Administration's "perception of means available . . . appears to be the single most decisive determinant of national strategy." An important book, both for understanding history and for thinking about the present and the future.

AMERICA'S IMPASSE: THE RISE AND FALL OF THE POLITICS OF GROWTH. By Alan Wolfe. New York: Pantheon, 1981, 293 pp. $16.50.

An ambitious and reasoned argument that U.S. political history since 1945 has been characterized at home by an effort to overwhelm the need for reform by seeking endless economic growth and thereby postponing a day of reckoning, and in foreign affairs, by seeking ever-expanding influence, thus avoiding serious accommodation to the interests of other nations.

LABYRINTH. By Taylor Branch and Eugene M. Propper. New York: Viking, 1982, 553 pp. $15.95.

Eugene Propper was the Assistant U.S. Attorney in charge of discovering and prosecuting the murderers of exiled Chilean diplomat Orlando Letelier and his American co-worker in Washington in 1976—a grim act of terrorism already the subject of two previous books. Propper and his coauthor inundate the reader with details, but they do not solve the problem of how to take a reader into a labyrinth without leaving him confused.

WHY WE WERE IN VIETNAM. By Norman Podhoretz. New York: Simon and Schuster, 1982, 256 pp. $14.50.

The author argues vigorously that American intentions in Vietnam were to protect a struggling people from communist tyranny. He criticizes President Johnson and other leaders for failing to make the moral case for involvement and he condemns those who said the war was immoral. The book is really intended as a lesson for the 1980s.

KENNEDY, KHRUSHCHEV, AND THE TEST BAN. By Glenn T. Seaborg. Berkeley: University of California Press, 1981, 320 pp. $16.95.

A major addition to the history of nuclear arms control. Seaborg, a distinguished scientist, was appointed chairman of the Atomic Energy Commission by President Kennedy (here presented favorably). The author played a significant role in the events leading up to the 1963 treaty banning atmospheric nuclear tests. The book contains many lengthy quotations from his private journal.

THE EISENHOWER DIARIES. Edited by Robert H. Ferrell. New York: Norton, 1981, 445 pp. $19.95.

President Dwight D. Eisenhower did not keep a sustained daily journal, but when the spirit moved him and there was time, he wrote memoranda to himself on issues of public policy and his own political attitudes. Although lacking the pungency of Truman's diaries, the material constitutes a readable portrait of a self-consciously principled man, together with some details useful for the historian of mid-century America. Much of the book deals with how Eisenhower persuaded himself that it was his duty to seek the presidency.

AT DAWN WE SLEPT: THE UNTOLD STORY OF PEARL HARBOR. By Gordon W. Prange. New York: McGraw-Hill, 1981, 912 pp. $22.95.

A powerfully written and dramatic account of both the Japanese and American sides of the events leading up to and including the attack on Pearl

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Harbor, with emphasis on the character and behavior of the naval officers. There is nothing startlingly new about the larger political context, but the portraits of individuals—especially the Japanese—are compelling. When the author died in 1980, he left a manuscript four times the length of this book. Two associates capably boiled down the draft.

CLARE BOOTHE LUCE. By Wilfrid Sheed. New York: Dutton, 1982, 183 pp. $12.95.

As editor (*Vanity Fair*), playwright (*The Women*), war correspondent (*Life*), Congresswoman (from Connecticut) and ambassador (to Italy), Clare Boothe Luce had a remarkable career. Yet feminists are ambivalent because she was attractive to men in positions of power (army generals, presidential advisers) and liked to have them around (Henry Luce). Sheed thinks she was not instinctively political, but liked the excitement, and the argument. He has written a sometimes wistful memoir of a sharp, talented and fiercely determined winner, who knew how to live with her losses, or cut them.

L.D.

THE SPECULATOR: BERNARD M. BARUCH IN WASHINGTON, 1917–1965. By Jordan A. Schwarz. Chapel Hill: University of North Carolina Press, 1981, 679 pp. $27.50.

A thorough, excessively long discussion of Baruch's ideas and his techniques for wielding influence. The portrait is on balance favorable. The treatment of the Baruch plan for control of atomic weapons, for example, is more critical of Baruch's critics than it is of Baruch.

The Western Hemisphere

Robert D. Crassweller

LIFE WITH UNCLE: THE CANADIAN-AMERICAN RELATIONSHIP. By John W. Holmes. Toronto: University of Toronto Press, 1981, 144 pp. $6.95 (paper).

A respected Canadian commentator on world affairs and former diplomat speaks frankly and with uncharacteristic if understandable irritation about the difficulty his country has in dealing with the United States, a nation he sees as almost incapable of keeping its word because of a Congress "disdainful . . . of international commitments."

G.S.

THE YOUNG VINCENT MASSEY. By Claude Bissell. Toronto: University of Toronto Press, 1981, 270 pp. $22.50.

The first volume in a two-volume biography of the Canadian patron of the arts, philanthropist, diplomat and governor-general. The emphasis is more on culture than politics. The author, former president of the University of Toronto, was a friend and associate of Massey's.

G.S.

HUMAN RIGHTS AND UNITED STATES POLICY TOWARD LATIN AMERICA. By Lars Schoultz. Princeton: Princeton University Press, 1981, 416 pp. $32.50 (paper, $7.95).

This is a long and thorough analysis, primarily descriptive, of U.S. policy-making in regard to human rights in Latin America, and the values underlying

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this policy. The author believes, no doubt correctly, that security policy based on anti-communism will always prevail over humanitarian values in the formulation of policy, since officials must counter perceived threats. Human rights supporters should therefore seek influence over such perceptions, arguing for a national interest in peace and stability.

NEIGHBORS—MEXICO AND THE UNITED STATES: WETBACKS AND OIL. By Robert Jones Shafer and Donald Mabry. Chicago: Nelson-Hall, 1982, 241 pp. $18.95 (paper, $9.95).

A good description and history of Mexico-U.S. relations, with its emphasis on oil and immigration. Sprightly in tone, and realistic, the book recognizes the considerable ambivalence on both sides. Partly because human resources resist alteration, "it is therefore best to assume that without some extraordinary measures, there will be no revolutionary change in economic relations between Mexico and the U.S." But incremental changes may some day add up.

NICARAGUA: THE LAND OF SANDINO. By Thomas W. Walker. Boulder (Colo.): Westview Press, 1982, 137 pp. $20.00 (paper, $10.95).

Describing the values of the Sandinist revolution as "a uniquely Nicaraguan combination of flexible Marxism and progressive Catholicism," this brief, sympathetic study provides an overview of history through the Somoza era, the economy, culture and politics, and international aspects.

EL SALVADOR: CENTRAL AMERICA IN THE NEW COLD WAR. Edited by Marvin E. Gettleman and others. New York: Grove Press, 1981, 466 pp. $7.95 (paper).

A potpourri of articles, interviews, documents and editorial comments on events in El Salvador and the rest of Central America. Although the current Washington viewpoint is represented by an occasional entry such as the famous Kirkpatrick article in *Commentary* and the State Department White Paper on El Salvador, the general emphasis, and the editorial comments, are strongly left of center.

THE ECONOMY OF SOCIALIST CUBA: A TWO-DECADE APPRAISAL. By Carmelo Mesa-Lago. Albuquerque: University of New Mexico Press, 1981, 235 pp. $17.50 (paper, $9.95).

Objective and professional in approach, this volume provides a concise but integrated view of the Cuban economy after 20 years of socialism, based on analysis of five major goals: sustained growth, diversification of production, relative economic independence, full employment, and more equal distribution of income and social services. Note is taken of shifts in priorities, resulting from inevitable incompatibilities among the goals.

POWER AND IDEOLOGY IN BRAZIL. By Peter McDonough. Princeton: Princeton University Press, 1981, 326 pp. $25.00 (paper, $7.95).

Thorough in treatment, this analysis is directed to the Brazilian power structure, the human elements comprising it, the ideologies of the elites, and the relationship of these to the distribution of power. The elites are seen as neither unideological nor as one-dimensional ideologues. Rather, they think in terms of several axes of political choice. These differences reflect specific institutional conflicts.

THE STRUGGLE FOR LAND: A POLITICAL ECONOMY OF THE PIONEER FRONTIER IN BRAZIL FROM 1930 TO THE PRESENT

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DAY. By Joe Foweraker. New York: Cambridge University Press, 1981, 290 pp. $39.50.

The principal regions Foweraker covers include the northern Amazon state of Para, the Mato Grosso and the western half of Parana in the south. Here poor peasants arrive in search of farmland. But because of a confusion over land titles, some dating back to the colonial period, the peasants' claims are contested by powerful businessmen and farmers, particularly after the peasants have cleared the land and increased its value. The conflict leads to violence. Backed by the state, the security forces and private guns-for-hire, big capital is able to acquire a monopoly of land and a surplus of cheap peasant labor, a situation which, in this essentially Marxist analysis, reflects the social and economic structure of the rest of Brazil.

Jonathan Kandell

THE PROCESS OF POLITICAL DOMINATION IN ECUADOR. By Agustín Cueva. New Brunswick (N.J.): Transaction Books, 1982, 106 pp.

An Ecuadorian scholar sketches a short but intense study of his country's society and politics, centered on the long career of José Velasco Ibarra. Velasco Ibarra, with his five electoral victories and his insurrectionary movement, fulfilled the role of prophet, priest and father of the lowliest of the *lumpenproletariat*. Through this symbolic, tutelary figure, they have maintained the illusion of participation in national life; in reality, after 40 years, they are still marginal.

THE CHALLENGE OF VENEZUELAN DEMOCRACY. By José Antonio Gil Yepes. New Brunswick (N.J.): Transaction Books, 1981, 275 pp. $19.95.

In this study of the Venezuelan government, party system, and entrepreneurial sector, the author identifies the challenge to democracy as the acceleration of development through elimination of the distortions caused by the dogmas of politicians and businessmen. He proposes a new political style based on better access and communication. A scholarly work, academic in tone.

THE INDICTMENT OF A DICTATOR. By Judith Ewell. College Station: Texas A&M University Press, 1981, 203 pp. $18.50.

The central focus here is on the conflict between Venezuelan dictator Pérez Jiménez and Betancourt, the rise and fall of Pérez, his extradition and his Supreme Court trial. Pérez, seen as an apolitical technocrat, wanted economic development without social change, while Betancourt wanted to replace the old *caudillo* personalism with institutionalized political democracy.

Western Europe

Fritz Stern

REBEL EUROPE: HOW AMERICA CAN LIVE WITH A CHANGING CONTINENT. By James Oliver Goldsborough. New York: Macmillan, 1982, 163 pp. $12.95.

A sharply argued dissent from prevailing American complacency and also alarmist orthodoxy. Goldsborough, a veteran foreign correspondent turned analyst, explains Europe's pull away from the United States as being consonant with Europe's interests and not unrelated to American failures. He suggests ways of adjusting to long-term transatlantic changes and his Gaullist

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arguments leave little room for any sentimental invocation of the past or for condemning European desertion. A vigorous and important, if slightly hurried, contribution to what should become a major debate over future U.S.-European relations.

UNITED STATES INTERESTS AND WESTERN EUROPE: ARMS CONTROL, ENERGY, AND TRADE. Edited by Ernest-Otto Czempiel and others. Frankfurt/Main: Campus Verlag, 1981, 149 pp. DM. 29.

A collection of papers originally written for an international conference in December 1980. Czempiel, a well-known German expert, contributes a valuable overview of "U.S.-Western European relations in a global perspective."

WEST GERMANY AND THE EUROPEAN COMMUNITY. By Werner J. Feld. New York: Praeger, 1981, 151 pp.

Some quite useful comments on the history of German relations with the Community and on present prospects, including a brief discussion of how Bonn could regard greater integration with Western Europe as conflicting with hopes for further progress toward *Ostpolitik* and—in some remote future—toward reunification. The book is marred by much emphasis on "a new theoretical approach," which consists of the author's "growing conviction that progress in regional economic and political integration is mainly a function of the foreign and domestic policies pursued by the member governments of a regional organization."

LIFE WITH THE ENEMY: COLLABORATION AND RESISTANCE IN HITLER'S EUROPE, 1939–1945. By Werner Rings. New York: Doubleday, 1982, 351 pp. $17.95.

A popular account of one of the most gripping and confusing moments in the history of our century: the responses of the conquered peoples of Europe to the Nazi conqueror. Rings, a German-born Swiss journalist, rightly discards the simple-minded antithesis of resistance and collaboration and establishes his more nuanced categories, stressing the many different types of collaboration and resistance and the ease with which people could move from one to another. A provocative essay, *inter alia* questioning the effectiveness of the resistance and stressing the pervasiveness of collaboration, but shallow in analysis and not quite adequate as history.

THE PLEDGE BETRAYED: AMERICA AND BRITAIN AND THE DENAZIFICATION OF POST-WAR GERMANY. By Tom Bower. New York: Doubleday, 1982, 462 pp. $17.95.

A broadside against the feeble Anglo-American efforts to prosecute Nazi war criminals. The author, a BBC producer, believes many Allied officers (not all—not, for example, General Clay) and most Germans collaborated on facilitating the reintegration into society of former Nazis and war criminals—to the great detriment, he argues, of the Bonn Republic. The mistakes were indeed many and systematic, but the bungled process deserves something better than this polemic, this prosecutor's brief; it needs a historian's effort to understand or truly reconstruct an appalling miscarriage of hopes and promises.

THE GERMANS. By Gordon A. Craig. New York: Putnam, 1982, 350 pp. $15.95.

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A series of sparkling, informative essays on major and often neglected themes; e.g., women, money, religion, by a historian acclaimed for his work in political-military history, but with an admirable grasp of German culture as well. A genre much neglected in our time: light reading for a serious purpose.

AMBIGUOUS PARTNERSHIP: BRITAIN AND AMERICA, 1944–1947. By Robert M. Hathaway. New York: Columbia University Press, 1981, 410 pp. $25.00.

The motto of this useful monograph could well be the lament of Lord Keynes in December 1945: "How difficult it is for nations to understand one another, even when they have the advantage of a common language." American policy emerges as a curious blend of illusion and interest; the study reinforces the view that for some time the United States had more faith in the possibilities of cooperation with the Soviets than the British did—or than Soviet behavior would seem to have justified. A carefully documented recital of Anglo-American relations, conventionally and competently executed.

END OF THE AFFAIR: THE COLLAPSE OF THE ANGLO-FRENCH ALLIANCE, 1939–1940. By Eleanor M. Gates. Berkeley: University of California Press, 1981, 630 pp. $28.50.

A careful examination of the gradual process by which a never untroubled alliance finally collapsed under the blows of the Nazi conquest and the attendant upheavals in France. An ever-fascinating story, based on some new material, and written with an impartiality that time and distance can afford.

THE STRATEGY OF THE ITALIAN COMMUNIST PARTY: FROM THE RESISTANCE TO THE HISTORIC COMPROMISE. By Donald Sassoon. New York: St. Martin's, 1981, 259 pp. $25.00.

A highly intelligent study of the PCI's objectives and strategies in the postwar years, necessarily focusing on the major role of Palmiro Togliatti. Sophisticated in his analysis of doctrinal positions and of political reality, Sassoon, a British historian, examines the evolution of a party that achieved great successes and in recent years faced new setbacks. An excellent, if difficult, introduction to an understanding of the present position of the PCI, with its still clearer break with Moscow.

The Soviet Union and Eastern Europe

John C. Campbell

STALIN'S AMERICAN POLICY: FROM ENTENTE TO DETENTE TO COLD WAR. By William Taubman. New York: Norton, 1982, 291 pp. $18.95

Enough has been written about the origins of the cold war to make one hesitant to pick up a new book on Stalin's diplomacy from 1939 to 1949, but this author, having read all the revisionists, traditionalists and post-revisionists, gives an appraisal which falls into none of these categories and is the better for it. He has no hitherto secret sources, but his knowledge of Stalin and of Soviet political culture and his powers of analysis (necessarily including some speculation since none of us can read Stalin's mind) make this a book to be read by those who think they have had their fill of the subject and by those looking for a place to start. It also has useful lessons for today.

AN END TO SILENCE: UNCENSORED OPINION IN THE SOVIET

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UNION. From Roy Medvedev's Underground Magazine, *Political Diary*. Edited by Stephen F. Cohen. New York: Norton, 1982, 375 pp. $19.95.

Selected articles from *Political Diary*, Roy Medvedev's *samizdat* periodical which circulated, in very few copies, within the Soviet establishment in the period from 1964 to 1971. The general slant is that of Medvedev himself, the struggle against Stalinism and for reform of the existing system in a democratic direction. The work is significant in bringing out issues in Soviet society in need of debate but hidden under the official blanket of orthodoxy. Cohen's introduction on "the Stalin question after Stalin" is an excellent summary, wholly relevant to the Soviet writings presented.

AMERIKANSKIE KONTSEPTSII RAZVITIIA OTNOSHENII S SSSR. By P.T. Podlesny. Moscow: Nauka, 1980, 182 pp. Rubles 1.10.

A review of American ideas and guiding concepts for relations with the U.S.S.R. during the 1970s, replete with quotations from Kissinger and Brzezinski. Soviet puzzlement and frustration with the zigzag policies of the Carter Administration are reflected here, but there is almost no recognition that Soviet conduct had something to do with it.

KONFLIKT UND KOOPERATION ZWISCHEN OST UND WEST. By Gerhard Wettig. Bonn: Osang Verlag, 1981, 217 pp.

With characteristic thoroughness, drawing on all the pertinent Western and Soviet writings, Wettig gives a review and critique of the concepts which have marked the course of East-West and particularly U.S.-Soviet relations since World War II: deterrence, détente, coexistence, strategic stability and so on. He is honest and fair in describing the various theories and always coolly skeptical in his own evaluation.

THE POLISH AUGUST By Neal Ascherson. New York: Viking, 1982, 299 pp. $14.95.

A British journalist's enthralling account of recent events in Poland, informed by his long professional experience in that country and elsewhere in Eastern Europe. The background material, covering the entire postwar period, shows how the interaction of Party, Church and nation, the incomplete results of earlier crises, and the failures of the regime brought the country to the convulsion of August 1980. The events from August to December of that year are described in detail, those of 1981 up to the military coup of last December more briefly.

INDEPENDENT SOCIAL MOVEMENTS IN POLAND. By Peter Raina. London: London School of Economics and Political Science, 1981, 632 pp. (London: Orbis Books, distributor, £ 15).

Supplementing the author's earlier *Political Opposition in Poland, 1954–1977*, this is essentially a source book including hundreds of statements and publications attesting to the vigor of the unofficial social and cultural life in Poland which undermined the communist system and produced the extraordinary outburst of popular opposition in 1980 and thereafter.

POLAND: THE LAST DECADE. By Adam Bromke. Oakville (Ontario): Mosaic Press, 1981, 224 pp. $25.00 (paper, $12.95).

A collection of articles written over a ten-year span by a well-known Canadian expert on Poland. They continue the themes, in somewhat haphazard fashion, of his outstanding work, *Poland's Politics: Idealism and Realism*,

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published in 1967.

THE POLISH UNDERGROUND STATE: A GUIDE TO THE UNDERGROUND 1939–1945. By Stefan Korbonski. New York: Hippocrene, 1981, 268 pp. $9.95 (paper).

One of the leaders of the wartime resistance in Poland, and a prominent figure in exile since then, adds a detailed and partly autobiographical account of the organization and conduct of the underground struggle against the Germans (and later against the communists) to his earlier works on the subject. The original Polish version was published in Paris in 1975.

SOVIET INFLUENCE IN EASTERN EUROPE: POLITICAL AUTONOMY AND THE WARSAW PACT. By Christopher D. Jones. New York: Praeger, 1981, 322 pp. $29.95 (paper, $10.95).

The political-military structure of the Warsaw Pact has a great deal to do with the nature of the "socialist international relations" between the U.S.S.R. and the states of Eastern Europe. In this searching and well-presented study of how the system works, and where it does not work, the author makes the interesting but not wholly proven argument that the key to Moscow's decisions on intervention to stifle deviation by the satellite states lies in the capacity and will of those states for military self-defense.

BLUE-COLLAR WORKERS IN EASTERN EUROPE. Edited by Jan F. Triska and Charles Gati. Winchester (Mass.): Allen & Unwin, 1981, 320 pp. $37.50 (paper, $12.95).

Professional scholars with a deep knowledge of East European societies examine how and why the development of socialism there has meant increasing conflict between the urban proletariat and its self-appointed vanguard, the communist leadership. Readers might wish to see more attention given to the crucial case of Poland, but the breadth of the coverage (all of Eastern Europe including Yugoslavia) ensures good background for judging the effects of Polish developments on the rest of the region.

CZECHOSLOVAKIA'S ROLE IN SOVIET STRATEGY. By Josef Kalvoda. Washington: University Press of America, 1981, 381 pp. $12.75.

New material and laborious research by the author make this a book other scholars cannot ignore, although they may not accept all its premises and its judgments. It is more a history of Czechoslovakia's international position and policies from 1918 to 1968 (with stress on the role of Edvard Beneš, for whom the author has no respect or sympathy) than a study of Soviet strategy, which is presented in simplified form.

The Middle East and North Africa

John C. Campbell

THE ARAB PREDICAMENT. By Fouad Ajami. New York: Cambridge University Press, 1981, 211 pp. $19.95.

A brilliant exercise in intellectual history and a searching enquiry into the political and social malaise of the Arab world in the critical periods following the defeat of 1967 and the partial victory of 1973. The author, an American scholar of Arab origin, is sympathetic, but merciless in his exposé of the myths and illusions which have served as the dominant ideologies in inter-Arab

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relations and in the attraction-rejection complex that has marked the connection with the West.

EGYPT AND ISRAEL. By Howard M. Sachar. New York: Marek, 1981, 384 pp. $19.95.

An American historian who has written at length on the Middle East and on Zionism and Israel reviews the five wars between Egypt and Israel and the intervals in between, coming finally to the "fragile accord" of Camp David and the present "precarious embrace." It is a balanced and well-written account for the general reader, relying on the voluminous existing literature and unencumbered with notes and citations.

THE WEST BANK STORY. By Rafik Halabi. New York: Harcourt Brace Jovanovich, 1982, 312 pp. $12.95.

The author is a Druse, attached to Israel by the loyalty of citizenship and military and civil service, and to the Arabs by the ties of language and culture. As a reporter for Israeli television, he was in a unique position to tell the story of what has been happening in the occupied territories since the war of 1967. Part autobiography, part observation, his account describes not just events but the fears, ambitions and prejudices of the people, both Arabs and Jews. It is an extraordinary and intensely interesting book—honest and courageous reporting on a situation made nearly hopeless by violence, extremism and misguided policies.

ISRAEL'S DEFENSE LINE: HER FRIENDS AND FOES IN WASHINGTON. By I.L. Kenen. Buffalo (N.Y.): Prometheus Books, 1981, 345 pp. $19.95 (paper, $9.95).

For years I. L. Kenen, chairman of the American Israel Public Affairs Committee, was at the center of efforts to influence U.S. policy in favor of Israel. This is essentially a public relations story, one of good guys and bad guys, illustrating the influence of the American Jewish community and the undoubted success of Kenen. It contains considerable information and some interesting points, although there must be many more interesting points that have been left out.

RELIGION AND POLITICS IN THE MIDDLE EAST. Edited by Michael Curtis. Boulder (Colo.): Westview Press, 1981, 406 pp. $25.25.

Mainly about the growing importance of Islamic movements and parties in the political life of the Middle East, this symposium also contains three chapters on Israel. For the most part it is uneven country-by-country coverage, illustrating the diversity of the phenomena, with themes and emphasis left to each author's own inclination. Most of the contributions, previously published in *Middle East Review*, date from 1978 to 1980.

ISLAM AND POWER IN THE CONTEMPORARY MUSLIM WORLD. Edited by Alex Cudsi and Ali E. Hillal Dessouki. Baltimore: Johns Hopkins Press, 1981, 204 pp. $20.00.

ISLAMIC RESURGENCE IN ARAB COUNTRIES. Edited by Ali E. Hillal Dessouki. New York: Praeger, 1982, 274 pp. $27.95.

In Islamic societies religion is almost always present in the changing equations of power. In what ways it is present—as an instrument of ruling regimes, a generator of opposition, a reaction to Western-style moderniza-

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tion—is now a central question for scholars. The authors of the first book treat the subject from a historical and philosophical standpoint. The contributors to the second volume, all social scientists, look more to the contemporary political scene in individual Arab countries.

CHANGE AND THE MUSLIM WORLD. Edited by Philip H. Stoddard, David C. Cuthell, and Margaret W. Sullivan. Syracuse (N.Y.): Syracuse University Press, 1981, 187 pp. $9.95 (paper).

For a better understanding of the questioning, ferment, reform movements and political violence now evident in much of the Muslim world, the Western reader will do well to consult this collection of essays by Islamic and non-Islamic experts. In presenting the cultural variations in many national environments in the Middle East, Asia and Africa, they reflect the diversity in Islam; unfortunately, because the canvas is so broad, the individual essays are often all too brief.

ISLAM AND REVOLUTION. By Iman Khomeini. Berkeley: Mizan Press, 1981, 460 pp. $19.95.

Whether one has an open or closed mind about Khomeini, it is well to have the texts of his utterances at first hand. This is therefore a useful reference work. The most significant part contains his lectures on Islamic government.

INSIDE THE IRANIAN REVOLUTION. By John D. Stempel. Bloomington: Indiana University Press, 1981, 336 pp. $17.50.

One of the best studies on Iran in the final years of the Shah, written by an observer who, if not "inside" the revolution, was a political officer inside the U.S. Embassy in Tehran from 1975 to 1979 (he was reassigned to Washington before the takeover). While conceding that at that time "America did not realize what was happening in Iran," he has reconstructed after the fact what did happen. He tells us less about what went on in Washington but gives a measured critique of the combination of action and inaction, perception and misconception, which took the place of a consistent and realistic policy.

SOVIET POLICY IN THE ARC OF CRISIS. By Fred Halliday. Washington: Institute for Policy Studies, 1981, 143 pp. $4.95 (paper).

The main purpose of the author, a New Left scholar and journalist, is to show that the American theory that all the problems of the Middle East-Indian Ocean area stem from a Soviet threat is a misreading both of Soviet policy and of the forces at work in the region. He knows the region well and much of his case is sound, but he overstates it by a wide margin and he has no privileged access to the Soviet policy process.

THE HOUSE OF SAUD. By David Holden and Richard Johns. New York: Holt, Rhinehart and Winston, 1982, 569 pp. $19.95.
THE KINGDOM. By Robert Lacey. New York: Harcourt Brace Jovanovich, 1982, 656 pp. $19.95.

Two popular works telling the increasingly familiar story of the exploits of Ibn Saud, the coming of ARAMCO and oil wealth, and the cautious assumption by Riyadh of a key role in Middle East and world affairs. Holden and Johns, British journalists, have produced the more solid work although it is overladen with detail. Lacey is primarily a storyteller. His book is easy to read and awash with local color and anecdotes, mainly about the innumerable royal princes.

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SAUDI ARABIA IN THE 1980's: FOREIGN POLICY, SECURITY, AND OIL. By William B. Quandt. Washington: Brookings, 1981, 190 pp. $22.95 (paper, $8.95).

William Quandt, with a background of scholarship and government service, is more at home in the field of international relations than in speculation on what is happening behind the latticed windows of the royal house of Al Saud. In straightforward fashion and with an economy of words, he presents the key questions of U.S.-Saudi relations—security, oil, money, Middle East politics—and offers some sound advice.

STATE, SOCIETY AND ECONOMY IN SAUDI ARABIA. Edited by Tim Niblock. New York: St. Martin's, 1981, 314 pp. $27.50.
SAUDI ARABIA'S DEVELOPMENT POTENTIAL. By Robert E. Looney. Lexington (Mass.): Lexington Books, 1982, 357 pp. $33.95.

The process of informing the West about Saudi Arabia's wealth and how it is being utilized goes inexorably on. The essays edited by Niblock, all done by competent specialists, give us a mixture of history, sociology and international diplomacy, along with the economics. Looney's book is largely a technical analysis of the economy and the prospects for growth, stressing that despite the available billions the realistic options open to Saudi Arabia are surprisingly limited.

Asia and the Pacific

Donald S. Zagoria

THE UNITED STATES AND ASIA. By Williams Watts. Lexington (Mass.): Lexington Books, 1982, 114 pp.

Based on survey data, this Potomac Associates study is a valuable and disquieting book about American attitudes toward Asia. Misinformation and negative stereotypes about Asia characterize the thinking of too many American citizens. Can a democratic society carry out an informed foreign policy toward an increasingly important part of the world on the basis of an "ignorance gap"? This is the basic question Watts poses. As Robert Oxnam, president of the Asia Society, points out in his foreword: "American ignorance of Southeast Asia and South Asia is due more than anything else to the miniscule attention they receive in U.S. print and broadcast journalism." Watts proposes a number of sensible steps to correct this situation.

THE REFUSED: THE AGONY OF THE INDOCHINA REFUGEES. By Barry Wain. New York: Simon and Schuster, 1982, 330 pp. $13.95.

In the first five years under communist rule in South Vietnam, Cambodia and Laos, nearly 1.3 million people decided to abandon their homes and flee their native countries—an outflow of permanent refugees on a scale the world had not witnessed since World War II, an exodus of Biblical proportions. An untold number of lives were claimed by the sea. Written by the correspondent for *The Asian Wall Street Journal* who first broke the story of the "boat people," this is the most complete story of the Indochina refugee exodus in all its grotesque and poignant detail.

THE FUTURE OF U.S.-CHINA RELATIONS. Edited by John Bryan Starr. New York: New York University Press, 1981, 270 pp. (New York:

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Columbia University Press, distributor, $25.00). A UNA-USA Book.
THE IMPLICATIONS OF UNITED STATES-CHINA MILITARY CO-OPERATION. Workshop sponsored by the Senate Foreign Relations Committee and the Congressional Research Service. Washington: G.P.O., 1981, 169 pp.
ASIA AND U.S. FOREIGN POLICY. Edited by James C. Hsiung and Winberg Chai. New York: Praeger, 1981, 263 pp.
CHINA, THE SOVIET UNION, AND THE WEST. Edited by Douglas T. Stuart and William T. Tow. Boulder (Colo.): Westview Press, 1982, 309 pp. $30.00 (paper, $13.95).

These four volumes address the crucial question of what U.S. policy toward China should be in the context of the growing challenge of Soviet expansionism. From a policy perspective the two most interesting essays in these collections are Robert Scalapino's plea, in the Starr volume, for the United States to maintain an "equilibrium" between the Soviet Union and China, and Banning Garrett's argument, in the Senate Foreign Relations Committee workshop, that the United States should aim at consolidating a strategy of two-front deterrence of the Soviet Union. Both are thoughtful and well-argued expositions of conflicting views on a subject vital for the future. (The Senate workshop report also contains a lively discussion of the question of U.S. arms sales to China.) Less satisfactory are the volumes edited by Hsiung and Chai and by Stuart and Tow. Stuart and Tow have included 21 short papers in some 300 pages; the results are thin despite the high caliber of some of the contributors.

JAPANESE POLICY AND EAST ASIAN SECURITY. By Taketsugu Tsurutani. New York: Praeger, 1981, 208 pp.

This is one of the most thoughtful and comprehensive accounts of contemporary Japanese foreign policy yet published. Tsurutani, a political scientist at Washington State University, analyzes Japanese conduct in the postwar period, Japan's defense policy, and its relations with the other major powers in East Asia. He ends with a plea for Japan to take on the responsibility that inheres in its growing power: "Power whose responsibility is evaded becomes ultimately as dangerous as power that is abused."

POLITICAL CONFLICT IN THAILAND. By David Morrell and Chaianan Samudavanija. Cambridge: Oelgeschlager, 1981, 362 pp. $25.00.

This collaborative effort between an American and a Thai political scientist is the best book on contemporary Thai politics to appear in recent years. It concludes with guarded optimism that the Thai military will push through the necessary reforms to prevent a revolution. But the authors fear that the "reactionary forces" are still very powerful and may yet succeed in blocking those reforms.

SUHARTO'S INDONESIA. By Hamish McDonald. Honolulu: University Press of Hawaii, 1981, 277 pp. $5.95 (paper).

In addition to offering his judicious first-hand impressions, McDonald, an Australian journalist who lived in Jakarta from 1975 to 1978, also demonstrates more than a passing acquaintance with the best academic writing on Indonesia. The result is a solid, well-written and balanced account of Indonesia under Suharto—a combination that is rare. The verdict on Indonesia is mixed. Under Suharto, real per capita income grew by eight to ten percent during

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the 1970s, yet poverty is still appalling, population growth alarming, and corruption a serious problem despite efforts to curb it. Politically, the government operates on a cycle of openness, clampdown, then gradual letup. Since the slaughter and mass arrests that destroyed the Indonesian Communist Party in 1965, the government has, "with some success," tried to buy off its opponents rather than eliminate them. And there is a surprising level of free debate about basic issues facing the country in the press, the professions and other institutions.

SOVIET-AMERICAN RELATIONS IN ASIA, 1945–1954. By Russell D. Buhite. Norman: University of Oklahoma Press, 1981, 256 pp. $14.95.
THE UNWANTED SYMBOL: AMERICAN FOREIGN POLICY, THE COLD WAR, AND KOREA, 1945–1950. By Charles M. Dobbs. Kent (Ohio): Kent State Univertity Press, 1981, 239 pp.
COLONIALISM AND THE COLD WAR: THE UNITED STATES AND THE STRUGGLE FOR INDONESIAN INDEPENDENCE, 1945–49. By Robert J. McMahon. Ithaca (N.Y.): Cornell University Press, 1981, 338 pp. $22.50.

These three books by American historians are impressive additions to the growing number of accounts of the early cold war based on intensive research in U.S. government archives. Buhite's account of Soviet-American relations in China, Korea and Japan is particularly noteworthy. Dobbs provides a thorough analysis of U.S. policy in Korea in the years leading up to the Korean War. And McMahon's book is a carefully documented study of U.S. policy toward Indonesia in the crucial years of post-World War II decolonialization.

Africa

Jennifer Seymour Whitaker

IDEOLOGY AND DEVELOPMENT IN AFRICA. By Crawford Young. New Haven: Yale University Press, 1982, 376 pp. $29.95. A Council on Foreign Relations Book.

This volume, a product of the Council's Africa Project, assesses the performance of African states of varied ideologies in economic growth, distribution, self-reliance, human dignity, participation and societal capacity. The central conclusion is that development "success" cannot be tied to any particular ideology. Despite the lack of a single unambiguous conclusion, this stimulating book lays very useful groundwork for the central task of this decade: the need to redefine economic, social and political development beyond current political ideologies.

John W. Sewell

OUTCAST CAPE TOWN. By John Western. Minneapolis: University of Minnesota Press, 1981, 372 pp. $22.50.

A social geographer painstakingly maps the economic and social dislocation visited upon Capetown's Coloured population by the implementation of racial separation within the city. In the process he tells us more than perhaps we need to know about the administrative apparatus of boundaries, zones, etc., but also fills in his outline with feeling descriptions of the human desolation and adjustment involved.

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ISRAEL, SOUTH AFRICA AND BLACK AFRICA. By Kunirum Osia. Washington: University Press of America, 1982, 128 pp. $17.75 (paper, $7.75).

Balanced and accurate, this essay places the growing Israeli-South African relationship in the context of NATO, Warsaw Pact and African dealings with Pretoria; for the most part, however, it adds little new information to its gleanings from well-known sources.

BATTLEFRONT NAMIBIA. By John Ya-Otto. Wesport (Conn.): Lawrence Hill, 1981, 151 pp. $12.95 (paper, $6.95).

The Labor Minister of SWAPO (Southwest Africa People's Organization) recounts his personal saga of developing political commitment, conflict with the Boer adversary, imprisonment, torture, trial, rustication, and the agonizing decision to flee his homeland. His experience affords the reader an unusual perspective on black-white relations in Namibia and the (necessarily) subterranean world of black politics there.

FROM RHODESIA TO ZIMBABWE: THE POLITICS OF TRANSITION. By Henry Wiseman and Alastair M. Taylor. Elmsford (N.Y.): Pergamon Press (for the International Peace Academy), 1981, 170 pp.

A member of the Commonwealth observer group during the Zimbabwe election reports how the highly disparate Zimbabwean elements were held together during the electoral process largely by the political skill and determination of the British monitors—as well as the apparent recognition by all parties that the moment was finally at hand. A highly readable account of an exemplary peacemaking process.

UNDERDEVELOPMENT AND THE TRANSITION TO SOCIALISM: MOZAMBIQUE AND TANZANIA. By James H. Mittelman. New York: Academic Press, 1981, 277 pp. $27.50.

This study avoids the well-worn generalizations now inherent in this increasingly common comparison, but the author's approach—through an intensive focus first on the Mozambican transition to independence and then on Tanzania's nationalization of banks—ends up juggling apples and oranges. With or without its Marxist framework, his argument about socialist transitions does not get by the most basic difference between the two countries: Mozambique forged its political dispensation in its war for independence, while Tanzanian socialism emanated from the mind of President Julius Nyerere.

COOPERATIVES AND DEVELOPMENT: AGRICULTURAL POLITICS IN GHANA AND UGANDA. By Crawford Young, Neal P. Sherman and Tim H. Rose. Madison: University of Wisconsin Press, 1981, 276 pp.

This careful study, based on extensive field work in the mid-1960s and mid-1970s, does not attempt to gauge the economic consequences of cooperatives in any detail, but instead scrutinizes their interactions with the governments in each country. These two variants seem to have been both instruments for government control and launching pads for rural capitalism (rather than the egalitarianism often associated with the cooperative idea).

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ERRATA

America and the World 1981

1. In John C. Campbell's "The Middle East: A House of Containment Built on Shifting Sands": on page 602, line 35, for "termination of the Symington Amendment," read "requirement for termination under the Symington Amendment."

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1. In Robert Carswell's "Economic Sanctions and the Iran Experience":

a. On page 247, the opening sentence of the article should have noted that there were actually 66 Americans taken hostage on November 4, 1979; 14 of these were released in November 1979 or the summer of 1980, so that the number held thereafter and finally released in January 1981 was 52.

b. On page 247, line 10, the voting in the U.N. Security Council is accurately described. However, for complete clarity and consistency, the sentence on page 251, line 8, referring to the subject should be amended to read: "Later, after the *Western members of the U.N. Security Council* had voted to impose sanctions on Iran . . . the banks urged foreign courts as a matter of national policy to support positions on international law that their governments had already endorsed and accordingly to deny relief to Iran."

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